UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2022

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ______________

Commission File Number: **001-40610**

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 Number)
215 West Broad Street, Mineola, Texas	**75773**
(Address of principal executive offices)	(Zip code)

(903) 569-2602
(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by a check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

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

As of June 30, 2022, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $40,108,469.

As of March 27, 2023, 3,373,723 shares of the registrant's common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement for the 2023 Annual Meeting of Stockholders are incorporated by reference into Part III of this annual report.

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PART I

ITEM 1. **Business**

Forward Looking Statements

This annual report contains forward-looking statements, which can be identified by the use of words such as such "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. Accordingly, you should not place undue reliance on such statements. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this annual report.

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:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan and lease losses;
- our ability to access cost-effective funding;
- 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;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues, the fair value of 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;
- our ability to retain key employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Texas Community Bancshares, Inc.

Texas Community Bancshares, Inc. (“Texas Community Bancshares,” the “Company” or “we”) was incorporated in March 2021 to become the holding company for Mineola Community Bank, S.S.B. (“Mineola Community Bank” or the “Bank”) upon the conversion of Mineola Community Mutual Holding Company from a mutual holding company to a stock holding company (the “Conversion”). The Conversion was completed on July 14, 2021. In connection with the Conversion, the Company sold 3,207,759 shares of common stock at a price of $10.00 per share to depositors of the Bank for net proceeds of $30,394,000, and contributed 50,000 shares of common stock and $75,000 in cash to the Texas Community Bancshares Foundation, Inc. (the “Foundation”).

The Company conducts its operations primarily through its wholly owned subsidiary, Mineola Community Bank, a Texas-chartered savings bank. At December 31, 2022, the Company had total consolidated assets of $417,346,000, loans and leases of $253,093,000, deposits of $296,077,000 and stockholders’ equity of $55,870,000.

Our executive offices are located at 215 West Broad Street, Mineola, Texas 75773 and our telephone number is (903) 569-2602. Our website address is *www.mineolacb.com*. Information on our website is not and should not be considered a part of this annual report. The Company is a registered bank holding company subject to comprehensive regulation and examination by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) and by the Texas Department of Savings and Mortgage Lending.

Mineola Community Bank, S.S.B.

Mineola Community Bank is a Texas-chartered savings bank headquartered in Mineola, Texas. Our business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings from the Federal Home Loan Bank of Dallas, in residential real estate loans and commercial real estate loans and, to a lesser extent, commercial loans, construction and land loans, and consumer and other loans. Substantially all of Mineola Community Bank’s loans are fixed-rate loans. We also invest in securities, which have historically consisted primarily of mortgage-backed securities and obligations issued by U.S. government sponsored enterprises and others, state and municipal securities, collateralized mortgage obligations, and Federal Home Loan Bank stock. We offer a variety of deposit accounts, including checking accounts, money market accounts, savings accounts and certificate of deposit accounts.

Mineola Community Bank is subject to comprehensive regulation and examination by the Texas Department of Savings and Mortgage Lending and the Federal Deposit Insurance Corporation and is a member of the Federal Home Loan Bank system.

Market Area

We consider Franklin County, Hopkins County, Smith County, Van Zandt County and Wood County, and contiguous areas, as our primary market area for originating loans and gathering deposits. Our main office and five branch offices are located in these counties. Our branch office in Winnsboro, Texas, is in Wood County, but the Winnsboro city limits also lie within Franklin County and Hopkins County.

Mineola, Texas, located in Wood County, is approximately 80 miles east of Dallas, Texas, and approximately 35 miles north of Tyler, Texas, two notable population centers. Our Edgewood branch office, located in Van Zandt County, is approximately 50 miles east of Dallas and our Lindale branch office, located in Smith County, is approximately 20 miles north of Tyler. The Tyler metropolitan area is a growing regional economic center with a large, diversified employment base spread across varied economic sectors. Tyler Junior College and The University of Texas at Tyler are located in Tyler.

Mineola has become an attractive, lower-cost of living, retirement area for residents of the Dallas area. There are major hospital facilities located in Tyler and numerous recreational facilities located in the vicinity of Mineola including well-known bass fishing lakes, golf courses, and other recreational facilities, all of which have contributed to the influx of population. The work-from-home trend that arose due to the COVID-19 pandemic has also contributed to area's population growth.

Major employers in our primary market area include Morton Salt Company (which operates a salt mine in Grand Saline, TX), Sanderson Farms, Inc. (which operates a poultry feed mill in Mineola and an additional facility in Lindale), Target (which has a distribution center in Lindale), local school districts, local governments, Walmart, Inc., Exxon Mobil Corporation, hospitals and other healthcare facilities, and numerous small manufacturing firms. Although there is some oil exploration business in Wood County, the economy of the primary market area is not heavily dependent on it.

Competition

We face intense competition within our local market area both in making loans and attracting deposits. Our market area has a high concentration of financial institutions that include money center banks, regional banks, community banks, and credit unions. We compete for loans with banks, savings institutions, mortgage brokers, consumer finance companies and credit unions. We compete for deposits with banks, savings institutions, credit unions, money market funds, brokerage firms, mutual funds and insurance companies. As of June 30, 2022 (the most recent date for which data is available), our deposit market share in Smith County was 0.15% (22nd among 25 Federal Deposit Insurance Corporation-insured institutions with offices in the county), 8.12% in Van Zandt County (6th among 8 Federal Deposit Insurance Corporation-insured institutions with offices in the county) and 17.80% in Wood County (3rd among 7 Federal Deposit Insurance Corporation-insured institutions with offices in the county). These are the counties in which our offices are located.

Lending Activities

General. Our historical lending activity consists primarily of originating one-to four-family residential mortgage loans, commercial real estate loans, and construction and land loans. To a substantially lesser extent, we originate agricultural loans, commercial loans, and consumer and other loans. Substantially all of the loans we originate are fixed rate loans.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated. In addition to the loans disclosed in the table below, we had loans in process of $23.3 million and $11.8 million at December 31, 2022 and December 31, 2021, respectively. We had no loans held for sale at December 31, 2022 and December 31, 2021, respectively.

	At December 31,			
	2022		2021	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate loans:				
One- to four-family residential	$ 162,462	64.2 %	$ 153,814	69.3 %
Multi-family	323	0.1	354	0.2
Construction & land	36,257	14.3	17,650	8.0
Commercial	33,678	13.3	31,686	14.3
Farmland	7,558	3.0	6,442	2.9
Agriculture loans	189	0.1	234	0.1
Commercial loans	7,029	2.8	6,128	2.8
Consumer and other	5,595	2.2	5,538	2.5
PPP loans	2	—	13	—
Total loans	253,093	100.0 %	221,859	100.00 %
Less:				
Net deferred loan fees	—	—	—	—
Allowance for losses	1,755	—	1,592	—
Total loans, net	$ 251,338	—	$ 220,267	—

Contractual Maturities. The following tables set forth the contractual maturities of our total loan portfolio at December 31, 2022. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. Because the tables present contractual maturities and do not reflect repricing or the effect of prepayments, actual maturities may differ.

	One- to Four-Family Residential Real Estate	Multi-Family Real Estate	Construction and Land	Commercial Real Estate	Farmland
			(In thousands)		
Amounts due in:					
One year or less	$ 807	$ —	$ 31,060	$ 10,179	$ 494
After one year through five years	5,499	64	3,063	9,834	3,665
After five years through 15 years	30,120	259	1,736	12,062	2,978
After 15 years	126,036	—	398	1,603	421
Total	$ 162,462	$ 323	$ 36,257	$ 33,678	$ 7,558

	Agriculture	Commercial	Consumer and Other	PPP	Total
			(in thousands)		
Amounts due in:					
One year or less	$ 84	$ 3,116	$ 1,165	$ 2	$ 46,907
After one year through five years	105	2,159	3,921	—	28,310
After five years through 15 years	—	1,324	509	—	48,988
After 15 years	—	430	—	—	128,888
Total	$ 189	$ 7,029	$ 5,595	$ 2	$ 253,093

The following table sets forth our fixed and adjustable-rate loans at December 31, 2022 that are contractually due after December 31, 2023.

	Due After December 31, 2023		
	Fixed	Adjustable	Total
		(In thousands)	
Real estate loans:			
One- to four-family residential	$ 161,654	$ —	$ 161,654
Multi-family	323	—	323
Construction and land	5,197	—	5,197
Commercial	22,409	1,091	23,500
Farmland	7,064	—	7,064
Agriculture loans	105	—	105
Commercial loans	3,913	—	3,913
Consumer loans	3,430	—	3,430
Other	1,000	—	1,000
PPP loans	—	—	—
Total loans	$ 205,095	$ 1,091	$ 206,186

One- to Four-Family Residential Real Estate Lending. At December 31, 2022, we had $162.5 million of loans secured by one- to four-family real estate, or 64.2% of total loans. The significant majority of our one- to four-family residential real estate loans are secured by properties located in our primary market area.

We have also originated residential mortgage loans secured by owner-occupied properties located in the northern and eastern sections of the Dallas Metroplex. We began originating these loans in 2014, and continue to do so primarily through word-of-mouth referrals. These are generally jumbo loans with low loan-to-value ratios, generally in the range of 60% to 75%. At December 31, 2022, these loans amounted to $61.8 million, of which $41.4 million were jumbo loans and $20.4 million were conventional loans.

Our one- to four-family residential real estate loans are generally underwritten to Fannie Mae guidelines. Substantially all of our residential mortgage loans are fixed-rate loans. Residential mortgage loans are generally originated at a fixed rate of 15, 20, or 30 years or with the optional 10-year balloon terms based on a 20- or 30-year amortization schedule. We generally limit the loan-to-value ratios of our one- to four-family residential mortgage loans to 80% (or 95% with private mortgage insurance) of the purchase price or appraised value, whichever is lower.

We do not offer "interest only" mortgage loans on permanent one- to four-family residential real estate loans (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. In general, we do not currently offer "subprime loans" on one- to four-family residential real estate loans (i.e., generally loans to borrowers with credit scores less than 620).

Commercial Real Estate Loans. At December 31, 2022, we had $33.7 million in commercial real estate loans, or 13.3% of total loans. Substantially all of our commercial real estate loans are fixed-rate balloon loans with a six- to ten-year initial term and with a 10- to 20-year amortization period. The maximum loan-to-value ratio of our commercial real estate loans is generally 80%.

At December 31, 2022, we had eleven loans secured by self-storage facilities totaling $12.1 million, nine loans secured by churches totaling $5.2 million, three loans secured by a rural water district totaling $3.3 million, seven loans secured by restaurant/fast food restaurant properties totaling $2.4 million, and seven loans secured by commercial rental properties totaling $1.8 million. At December 31, 2022, all of these loans were performing according to their terms.

We consider a number of factors in originating commercial real estate loans. We evaluate the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property, and the debt service coverage ratio (the ratio of net operating income to debt service). Generally, we require that the debt service coverage ratio be at least 1.15x. The significant majority of our commercial real estate loans are appraised by outside independent appraisers approved by the board of directors. Personal guarantees are generally obtained from the principals of commercial real estate borrowers.

At December 31, 2022, our largest commercial real estate loan relationship consisted of four loans totaling $10.6 million (after the sale of two participation interests totaling $6.5 million), which are secured by self-storage facilities. At December 31, 2022, all of these loans were performing according to their original terms.

Construction and Land Loans. At December 31, 2022, we had $36.3 million in construction and land loans, or 14.3% of total loans. We make construction loans, primarily to individuals for the construction of their primary residences and to contractors and builders of single-family homes. We also make a limited amount of land loans to complement our construction lending activities, as such loans are generally secured by lots that will be used for residential development. Land loans also include loans secured by land purchased for investment purposes. At December 31, 2022, our construction and development loans totaled $30.7 million, or 12.1% of our total loan portfolio, in addition to $5.6 million of land loans. At December 31, 2022, $11.6 million of our single-family construction loans were to individuals and $9.2 million were to builders.

Our construction loans are primarily secured by properties in our primary market area. We have also developed long-term relationships with a few builders in the northern and eastern sections of the Dallas Metroplex and continue to provide them with financing for some of their residential construction. At December 31, 2022, $713,000 of our single family construction loans in the Metroplex were originated to these builders. An additional $1.2 million of construction loans in the Metroplex were to individual borrowers at December 31, 2022.

While we may originate loans to builders whether or not the collateral property underlying the loan is under contract for sale, we consider each project carefully in light of current residential real estate market conditions. Construction loans originated to builders where there is no contract for sale for the underlying completed home at the time of origination are referred to as speculative construction loans. We actively monitor the number of unsold homes in our construction loan portfolio and local housing markets to attempt to maintain an appropriate balance between home sales and new loan originations. We generally will limit the maximum number of speculative units (units that are not pre-sold) approved for each builder, typically starting with one speculative loan per builder until we develop a relationship with the builder. At December 31, 2022, speculative construction loans totaled $9.2 million.

Our construction loans are fixed rate interest-only loans that provide for the payment of interest during the construction phase, which is usually up to 12 months. At the end of the construction phase, the loan may convert to a permanent mortgage loan or may be paid in full.

Construction loans generally can be made with a maximum loan-to-value ratio of 95% of the estimated appraised market value upon completion of the project. Mortgage insurance pre-approval is required for loans exceeding 80% loan-to-value. Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We also generally require inspections of the property before disbursements of funds during the term of the construction loan.

At December 31, 2022, our largest single family residence construction loan was for $1.4 million, with 48.2%, or $675,000, funded and our largest development loan was $8.0 million, with 78.9%, or $6.3 million funded. Both loans were performing according to the original terms at December 31, 2022 and both loans were in our local communities.

Commercial Loans. At December 31, 2022, commercial loans were $7.0 million, or 2.8% of total loans. This amount excludes loans originated under the PPP, which are described below.

We make commercial loans primarily to small businesses in our market area. These loans are generally secured by business assets, such as equipment and accounts receivable. Commercial loans are made with fixed-interest rates and for terms generally up to 60 months. Depending on the collateral used to secure the loans, commercial loans are made in amounts of up to 80% of the value of the collateral securing the loan.

When making commercial loans, we consider the financial statements of the borrower, our lending history with the borrower, the debt service capabilities and global cash flows of the borrower and other guarantors, the projected cash flows of the business and the value of the collateral, accounts receivable, inventory and equipment.

The CARES Act established the PPP through the SBA, which allowed us to lend money to small businesses to maintain employee payrolls through the COVID-19 crisis with guarantees from the SBA. PPP loans may be forgiven if the borrower maintains employee payrolls and meet certain other requirements. PPP loans have a fixed interest rate of 1.00% per annum and a maturity date of either two or five years. At December 31, 2022, we have two PPP loans totaling $2,000.

At December 31, 2022, our largest commercial loan totaled $1.1 million and is secured by manufacturing equipment. Our largest commercial relationship consists of seven loans totaling $1.3 million and is secured by machinery and equipment. At December 31, 2022, these loans were performing according to the original terms.

Consumer and Other Loans. At December 31, 2022, consumer and other loans were $5.6 million, or 2.2% of total loans. Our consumer loan portfolio generally consists of loans secured predominately by used automobiles, recreational vehicles, all-terrain vehicles and boats, as well as share loans secured by a deposit account at Mineola Community Bank.

Loan Underwriting Risks

Commercial Real Estate Loans. Loans secured by commercial real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential real estate loans. The primary concern in commercial real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we generally require borrowers and loan guarantors to provide quarterly, semi-annual or annual financial statements, depending on the size of the loan, on commercial real estate loans. In reaching a decision on whether to make a commercial real estate loan, we consider and review a global cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have an aggregate debt service ratio, including the guarantor's cash flows and the borrower's other projects, of at least 1.15x. An environmental phase one report is obtained when the possibility exists that hazardous materials may have existed on the site, or the site may have been impacted by adjoining properties that handled hazardous materials.

If we foreclose on a commercial real estate loan, the marketing and liquidation period to convert the real estate asset to cash can be lengthy with substantial holding costs. In addition, vacancies, deferred maintenance, repairs and market stigma can result in prospective buyers expecting sale price concessions to offset their real or perceived economic losses for the time it takes them to return the property to profitability. Depending on the individual circumstances, initial charge-offs and subsequent losses on commercial real estate loans can be unpredictable and substantial.

Commercial Loans. Unlike residential real estate loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial loans and agricultural loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flows of the borrower's business, and the collateral securing these loans may fluctuate in value. Our commercial loans are originated primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Collateral for commercial loans typically consists of accounts receivable, inventory or equipment. Credit support provided by the borrower for most of these loans is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value. As a result, the availability of funds for the repayment of commercial loans and agricultural loans may depend substantially on the success of the business or farm itself, respectively.

Construction and Land Loans. Our construction loans are based upon estimates of costs and values associated with the completed project. Underwriting is focused on the borrowers' financial strength, credit history and demonstrated ability to produce a quality product and effectively market and manage their operations.

Construction lending involves additional risks when compared with permanent lending because funds are advanced upon the security of the project, which is of uncertain value before its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. In addition, generally during the term of a construction loan, interest may be funded by the borrower or disbursed from an interest reserve set aside from the construction loan budget. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If the appraised value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. In addition, speculative construction loans, which are loans made to home builders who, at the time of loan origination, have not yet secured an end buyer for the home under construction, typically carry higher risks than those associated with traditional construction loans. These increased risks arise because of the risk that there will be inadequate demand to ensure the sale of the property within an acceptable time. As a result, in addition to the risks associated with traditional construction loans, speculative construction loans carry the added risk that the builder will have to pay the property taxes and other carrying costs of the property until an end buyer is found. Land loans have substantially similar risks to speculative construction loans.

Balloon Loans. Although balloon mortgage loans may reduce to an extent our vulnerability to changes in market interest rates because they reprice at the end of the term, the ability of the borrower to renew or repay the loan and the marketability of the underlying collateral may be adversely affected if real estate values decline before the expiration of the term of the loan or in a rising interest rate environment.

Consumer and Other Loans. Consumer loans may entail greater risk than residential real estate loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and a small remaining deficiency often does not warrant further substantial collection efforts against the borrower. Consumer loan collections depend on the borrower's continuing financial stability, and therefore are likely to be adversely affected by various factors, including job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Originations, Purchases and Sales of Loans

Lending activities are conducted by our salaried loan personnel operating at our main and branch office locations. All loans originated by us are underwritten pursuant to our policies and procedures. We primarily originate fixed-rate loans. We originate real estate and other loans through our loan officers, marketing efforts, our customer base, walk-in customers and referrals from real estate brokers, builders and attorneys.

In addition, from time to time, we may purchase or sell participation interests in loans. We underwrite our participation interest in the loan that we are purchasing according to our own underwriting criteria and procedures. At December 31, 2022, we had one purchased construction loan participation interest in commercial real estate of $403,000. At December 31, 2022, we had one purchased construction participation of $1.0 million secured by a hotel and two purchased participations of residential real estate of $207,000. At December 31, 2022, we had one loan, secured by self-storage facilities, for which we had sold two participation interests totaling $6.5 million.

We generally do not originate loans for sale. At December 31, 2022, we had no loans held for sale.

Loan Approval Procedures and Authority

Pursuant to Texas law, Mineola Community Bank is permitted to make loans to any one borrower or a group of related borrowers equal to 15% of unimpaired capital and unimpaired surplus plus an additional 10% of unimpaired capital and unimpaired surplus if the loan is fully secured by readily marketable collateral for a total of 25% of unimpaired capital and unimpaired surplus. The 25% limit applies to the majority of the loans made. At December 31, 2022, based on this limitation, Mineola Community Bank's loans-to-one-borrower limit was approximately $12.2 million. Notwithstanding this legal limit, Mineola Community Bank had an in-house limit of $3.0 million at December 31, 2022. At December 31, 2022, our largest loan relationship with one borrower had a net outstanding balance of $10.6 million, after the sale of a $6.5 million participation interest. This loan relationship is secured by self-storage facilities, and was performing according to its original terms at December 31, 2022.

Our lending is subject to written underwriting standards and origination procedures. Decisions on loan applications are made on the basis of detailed applications submitted by the prospective borrower, credit histories that we obtain, and property valuations (consistent with our appraisal policy) prepared by our internal licensed appraiser and outside independent licensed appraisers approved by our board of directors as well as internal evaluations, where permitted by regulations. The loan applications are designed primarily to determine the borrower's ability to repay the requested loan, and the more significant items on the application are verified through use of credit reports, bank statements and tax returns.

All loan approval amounts are based on the aggregate loans (total credit exposure), including total balances of outstanding loans and the proposed loan to the individual borrower and any related entity. Individual loan officer approval authorities range up to $200,000. Our Loan Committee has approval authority up to $500,000 on commercial and $750,000 on residential properties. Our Executive Committee has approval authority up to $2.0 million. Our Board of Directors must approve all loans greater than or equal to $2.0 million. These loan approval authorities are established by our loan policy.

Generally, we require title insurance or abstracts on our mortgage loans as well as fire and extended coverage casualty insurance in amounts at least equal to the principal amount of the loan or the value of improvements on the property, depending on the type of loan.

Delinquencies and Asset Quality

Delinquency Procedures. When a loan payment becomes 15 days past due, we contact the customer by mailing a late notice, and loan officers may contact their customers. If a loan payment becomes 30 days past due, we mail an additional late notice and a loan-specific letter written by a collection representative, and we also place telephone calls to the borrower. These loan collection efforts continue until a loan becomes 90 days past due, at which point we would refer the loan for foreclosure proceedings unless management determines that it is in the best interest of Mineola Community Bank to work further with the borrower to arrange a workout plan. The foreclosure process would begin when a loan becomes 120 days delinquent.

Loans Past Due and Non-Performing Assets. Loans are reviewed on a regular basis. Management determines that a loan is impaired or non-performing when it is probable at least a portion of the loan will not be collected in accordance with the original terms due to a deterioration in the financial condition of the borrower or the value of the underlying collateral if the loan is collateral dependent. When a loan is determined to be impaired, the measurement of the loan in the allowance for loan and lease losses is based on present value of expected future cash flows, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. Non-accrual loans are loans for which collectability is questionable and, therefore, interest on such loans will no longer be recognized on an accrual basis. All loans that become 90 days or more delinquent are placed on non-accrual status unless the loan is well secured and in the process of collection. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received on a cash basis or cost recovery method.

When we acquire real estate as a result of foreclosure, the real estate is classified as real estate owned. The real estate owned is recorded at the lower of carrying amount or fair value, less estimated costs to sell. Soon after acquisition, we order a new appraisal to determine the current market value of the property. Any excess of the recorded value of the loan satisfied over the market value of the property is charged against the allowance for loan and lease losses, or, if the existing allowance is inadequate, charged to expense of the current period. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of estimated fair value less estimated costs to sell.

A loan is classified as a troubled debt restructuring if, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession to the borrower that we would not otherwise consider. This usually includes a modification of loan terms, such as a reduction of the interest rate to below market terms, capitalizing past due interest or extending the maturity date and possibly a partial forgiveness of the principal amount due. Interest income on restructured loans is accrued after the borrower demonstrates the ability to pay under the restructured terms through a sustained period of repayment performance, which is generally six consecutive months.

Under the CARES Act, COVID-19 related modifications to loans that were current as of December 31, 2019 are exempt from troubled debt restructuring classification under accounting principles generally accepted in the United States ("U.S. GAAP"). In addition, the bank regulatory agencies have issued interagency guidance stating that COVID-19 related short-term modifications (*i.e.*, six months or less) for loans that were current as of the loan modification program implementation date are not troubled debt restructurings. In 2020, we granted short-term deferrals on 44 mortgage loans and consumer loans that were otherwise performing, totaling approximately $7.2 million and one commercial real estate loan of $1.2 million. As of December 31, 2022, thirteen of these mortgage and consumer loans remained open totaling $3.3 million, with one loan of $196,000 being on nonaccrual status and the remaining loans performing according to their original terms. In addition, the commercial real estate loan was also performing with a remaining balance of $943,000.

Delinquent Loans. The following table sets forth our loan delinquencies, including non-accrual loans, by type and amount at the dates indicated.

	At December 31,					
	2022			2021		
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due
	(In thousands)					
Real estate loans:						
One- to four-family residential	$ 1,172	$ 43	$ 348	$ 274	$ 106	$ 446
Multi-family	—	—	—	—	—	—
Commercial	126	—	—	—	36	—
Construction and land	836	94	—	847	773	—
Farmland	162	—	165	—	—	192
Agriculture loans	—	—	—	—	—	—
Commercial loans	—	—	—	—	—	—
Consumer loans	3	7	—	8	44	—
PPP loans	—	—	2	—	—	2
Total	$ 2,299	$ 144	$ 515	$ 1,129	$ 959	$ 640

Non-Performing Assets. The following table sets forth information regarding our non-performing assets. There were four non-accruing troubled debt restructurings included in non-accrual loans as of December 31, 2022 totaling $364,000 and $410,000 as of December 31, 2021. One PPP loan of $1,000 was considered non-performing at December 31, 2022 and $13,000 at December 31, 2021.

	At December 31, 2022	At December 31, 2021
	(Dollars in thousands)	
Non-accrual loans:		
Real estate loans:		
One- to four-family residential	$ 548	$ 768
Multi-family	—	—
Commercial	70	123
Construction and land	—	—
Farmland	165	192
Agriculture loans	—	—
Commercial loans	398	474
Consumer loans	—	33
Total non-accrual loans	$ 1,181	$ 1,590
Accruing loans past due 90 days or more	1	—
Real estate owned:		
One- to four-family residential	—	—
Multi-family	—	—
Commercial	—	—
Construction and land	—	—
Bank owned property held for sale	—	209
Total real estate owned	—	209
Total non-performing assets	$ 1,182	$ 1,799
Total accruing troubled debt restructured loans	$ —	$ 83
Total non-performing loans to total loans	0.47 %	0.72 %
Total non-accruing loans to total loans	0.47 %	0.72 %
Total non-performing assets to total assets	0.28 %	0.49 %

Classified Assets. Federal regulations provide for the classification of loans and other assets as “substandard,” “doubtful” or “loss.” An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as “special mention” by our management.

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances in an amount deemed prudent by management to cover probable accrued losses. General allowances represent loss allowances which have been established to cover probable accrued losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the regulatory authorities, such that additional general or specific loss allowances may be required.

In connection with the filing of our periodic reports with the Federal Deposit Insurance Corporation and in accordance with our classification of assets policy, we regularly review the problem loans in our portfolio to determine whether any loans require classification in accordance with applicable regulations.

On the basis of this review of our assets, our classified and special mention assets at the dates indicated were as follows:

	At December 31,	
	2022	2021
	(In thousands)	
Substandard assets	$ 3,006	$ 3,721
Doubtful assets	389	437
Loss assets	—	—
Total classified assets	$ 3,395	$ 4,158
Special mention assets	$ 658	$ 568
Foreclosed assets	$ —	$ 209

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is maintained at a level which, in management's judgment, is adequate to absorb probable credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of probable credit losses inherent in the loan portfolio and the related allowance may change materially in the near-term. The allowance is increased by a provision for loan and lease losses, which is charged to expense and reduced by full and partial charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan and lease losses. Management's periodic evaluation of the adequacy of the allowance is based on various factors, including, 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 and other qualitative and quantitative factors which could affect potential credit losses.

As an integral part of their examination process, the Texas Department of Savings and Mortgage Lending and the Federal Deposit Insurance Corporation will periodically review our allowance for loan and lease losses, and as a result of such reviews, we may have to adjust our allowance for loan and lease losses. However, regulatory agencies are not directly involved in the process for establishing the allowance for loan and lease losses as the process is our responsibility and any increase or decrease in the allowance is the responsibility of management.

The following table sets forth activity in our allowance for loan and lease losses for the periods indicated.

	At or For the Years Ended December 31,	
	2022	2021
	(Dollars in thousands)	
Allowance for loan and lease losses at beginning of year	$ 1,592	$ 1,561
Provision for loan and lease losses	208	50
Charge-offs:		
Real estate loans:		
One- to four-family residential	—	—
Multi-family	—	—
Commercial	—	—
Construction and land	—	—
Agriculture loans	—	—
Commercial loans	—	—
Consumer loans	26	7
Consumer Other – Overdrafts	32	29
PPP loans	—	—
Total charge-offs	58	36
Recoveries:		
Real estate loans:		
One- to four-family residential	—	—
Multi-family	—	—
Commercial	—	—
Construction and loan	—	—
Agriculture loans	—	—
Commercial loans	—	—
Consumer loans	13	17
PPP loans	—	—
Total recoveries	13	17
Net (charge-offs) recoveries	(45)	(19)
Allowance for loan and lease losses at end of year	$ 1,755	$ 1,592
Allowance for loan and lease losses to non-performing loans	148.60 %	100.13 %
Allowance for loan and lease losses to total loans outstanding at the end of the year	0.69 %	0.72 %
Net (charge-offs) recoveries to average loans outstanding during the year	(0.02)%	(0.01)%

Allocation of Allowance for Loan and Lease Losses. The following tables set forth the allowance for loan and lease losses allocated by loan category and the percent of the allowance in each category to the total allocated allowance at the dates indicated. The allowance for loan and lease losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,					
	2022			2021		
	Allowance for Loan and Lease Losses	Percent of Allowance in Each Category to Total Allocated Allowance	Percent of Loans in Each Category to Total Loans	Allowance for Loan and Lease Losses	Percent of Allowance in Each Category to Total Allocated Allowance	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)					
Real estate loans:						
One- to four-family residential & multi-family	$ 810	46 %	64 %	$ 805	51 %	69 %
Commercial	228	13	13	214	13 %	14 %
Construction and land	263	15	14	132	8 %	8 %
Farmland	31	2	3	27	2 %	3 %
Agriculture loans	1	—	—	1	—	— %
Commercial loans	359	20	3	357	22 %	3 %
Consumer loans	50	3	2	44	3 %	2 %
Other	13	1	1	12	1	1
PPP loans	—	— %	— %	—	— %	— %
Total allocated allowance	$ 1,755	100 %	100 %	$ 1,592	100 %	100 %

Investment Activities

General. The goals of our investment policy is to maximize portfolio yield over the long term in a manner that is consistent with minimizing risk, meeting liquidity needs, meeting pledging requirements, and meeting asset/liability management and interest rate risk strategies. Subject to loan demand and our interest rate risk analysis, we will increase the balance of our investment securities portfolio when we have excess liquidity.

Our investment policy was adopted by the board of directors and is reviewed annually by the board of directors. All investment decisions are made by our Asset/Liability Committee according to board-approved policies. An investment schedule detailing the investment portfolio is reviewed at least monthly by the board of directors.

Our current investment policy permits, with certain limitations, investments in: U.S. Treasury securities; securities issued by the U.S. government and its agencies or government sponsored enterprises including mortgage-backed securities and collateralized mortgage obligations; corporate and municipal bonds; certificates of deposit in other financial institutions; federal funds and money market funds.

At December 31, 2022, our investment portfolio consisted of U.S. Treasury securities, securities and obligations issued by U.S. Government-sponsored enterprises and others including mortgage-backed securities and collateralized mortgage obligations, corporate bonds including bank subordinated debt as well as state and municipal securities. At December 31, 2022, we also owned $2.5 million of Federal Home Loan Bank of Dallas stock. As a member of Federal Home Loan Bank of Dallas, we are required to purchase stock in the Federal Home Loan Bank of Dallas, which is carried at cost and classified as a restricted investment.

As of December 31, 2022 and 2021, all of our available for sale investment securities are carried at fair value through accumulated other comprehensive loss and our held to maturity securities are carried at cost.

For additional information regarding our investment securities portfolio, see Note 3 to the notes to consolidated financial statements.

Sources of Funds

General. Customer deposits have traditionally been our primary source of funds for use in lending and investment activities. We also use borrowings, and occasionally brokered deposits, to supplement cash flow needs, lengthen the maturities of liabilities for interest rate risk purposes and to manage the cost of funds. In addition, we receive funds from scheduled loan payments, investment maturities, loan prepayments, retained earnings and income on earning assets. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposits. Our deposits are generated primarily from our primary market area. We occasionally attain brokered deposits. We offer a selection of deposit accounts, including savings accounts, checking accounts, money market accounts, certificates of deposit and individual retirement accounts. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. We rely upon personalized customer service, long-standing relationships with customers, and the favorable image of Mineola Community Bank in the community to attract and retain local deposits. We also seek to obtain deposits from our commercial loan customers.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. The variety of deposit accounts offered allows us to be competitive in obtaining funds and responding to changes in consumer demand. Based on experience, we believe that our deposits are relatively stable. However, the ability to attract and maintain deposits and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions.

The following table sets forth the distribution of total deposits by account type at the dates indicated.

	At December 31,					
	2022			2021		
	Amount	Percent	Average Rate	Amount	Percent	Average Rate
	(Dollars in thousands)					
Noninterest-bearing demand deposits	$ 45,823	15.5 %	— %	$ 40,576	14.7 %	— %
Interest-bearing demand deposits	68,912	23.3 %	0.35 %	71,247	25.9 %	0.34 %
Regular savings deposits and other deposits	66,586	22.5 %	0.35 %	79,616	29.0 %	0.37 %
Money market deposits	25,338	8.5 %	0.78 %	10,950	4.0 %	0.37 %
Certificates of deposit	89,418	30.2 %	1.18 %	72,544	26.4 %	1.27 %
Total	$ 296,077	100.0 %		$ 274,933	100.0 %	

At December 31, 2022 and 2021, the aggregate amount of uninsured deposits (which are deposits in amounts greater than $250,000, which is the maximum amount for federal deposit insurance) was $17.4 million and $28.3 million, respectively. At December 31, 2022 and 2021, the aggregate amount of all our uninsured certificates of deposit was $5.9 million and $4.9 million, respectively. At December 31, 2022 and December 31, 2021, we had no deposits that were uninsured for any reason other than being in excess of the maximum amount for federal deposit insurance. At

December 31, 2022, we had $12.0 million in callable brokered certificates of deposit that were fully insured and issued as part of an investment strategy.

The following table sets forth the maturity of our uninsured certificates of deposit at December 31, 2022.

	At December 31, 2022
	(In thousands)
Maturity Period:	
Three months or less	$ 2,130
Over three through six months	253
Over six through twelve months	1,838
Over twelve months	1,673
Total	$ 5,894

Borrowings. At December 31, 2022, we had outstanding advances of $62.5 million from the Federal Home Loan Bank of Dallas. At December 31, 2022, we had unused borrowing capacity of $73.4 million with the Federal Home Loan Bank of Dallas. For further information regarding our borrowings from the Federal Home Loan Bank of Dallas, see note 10 of the notes to consolidated financial statements.

Personnel

As of December 31, 2022, we had 61 full-time employees and five part-time employees. Our employees are not represented by any collective bargaining group. Management believes that we have good working relations with our employees.

Subsidiary Activities

Mineola Community Bank is the sole and wholly owned subsidiary of Texas Community Bancshares, Inc. Mineola Community Bank has one subsidiary, Mineola Financial Service Corporation, which is currently inactive.

Supervision and Regulation

General

As a Texas-chartered savings bank, Mineola Community Bank is subject to examination and regulation by the Texas Department of Savings and Mortgage Lending, and is also subject to examination by the Federal Deposit Insurance Corporation as deposit insurer. The state and federal system of regulation and supervision establishes a comprehensive framework of activities in which Mineola Community Bank may engage and is intended primarily for the protection of depositors and the Federal Deposit Insurance Corporation’s Deposit Insurance Fund, and not for the protection of security holders. Mineola Community Bank also is a member of and owns stock in the Federal Home Loan Bank of Dallas, which is one of the 11 regional banks in the Federal Home Loan Bank System.

Under this system of regulation, the regulatory authorities have extensive discretion in connection with their supervisory, enforcement, rulemaking and examination activities and policies, including rules or policies that: establish minimum capital levels; restrict the timing and amount of dividend payments; govern the classification of assets; provide oversight for the adequacy of loan loss reserves for regulatory purposes; and establish the timing and amounts of assessments and fees. Moreover, as part of their examination authority, the banking regulators assign numerical ratings to banks and savings institutions relating to capital, asset quality, management, liquidity, earnings and other factors. These ratings are inherently subjective and the receipt of a less than satisfactory rating in one or more categories may result in enforcement action by the banking regulators against a financial institution. A less than satisfactory rating may also prevent a financial institution, such as Mineola Community Bank or its holding company, from obtaining necessary regulatory approvals to access the capital markets, pay dividends, acquire other financial institutions or establish new branches.

In addition, we must comply with significant anti-money laundering and anti-terrorism laws and regulations, Community Reinvestment Act laws and regulations, and fair lending laws and regulations. Mineola Community Bank must comply with consumer protection regulations issued by the Consumer Financial Protection Bureau, as enforced by the Federal Deposit Insurance Corporation. Government agencies have the authority to impose monetary penalties and other sanctions on institutions that fail to comply with these laws and regulations, which could significantly affect our business activities, including our ability to acquire other financial institutions or expand our branch network.

Texas Community Bancshares is a bank holding company and is required to comply with the Bank Holding Company Act of 1956, as amended, and the rules and regulations of the Federal Reserve Board. It is required to file certain reports with the Federal Reserve Board and is subject to examination by and the enforcement authority of the Federal Reserve Board. Additionally, the Federal Reserve Board may directly examine the subsidiaries of a bank holding company, including Mineola Community Bank. Texas Community Bancshares is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Any change in applicable laws or regulations, whether by the Texas Department of Savings and Mortgage Lending, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Securities and Exchange Commission or Congress, could have a material adverse impact on the operations and financial performance of Texas Community Bancshares and Mineola Community Bank.

Set forth below is a brief description of material regulatory requirements that are or will be applicable to Mineola Community Bank and Texas Community Bancshares. The description is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on Mineola Community Bank and Texas Community Bancshares.

Savings Bank Regulation

Business Activities. As a Texas-chartered savings bank, Mineola Community Bank is subject to supervision and regulation by the Texas Department of Savings and Mortgage Lending and the Federal Deposit Insurance Corporation. The Texas Department of Savings and Mortgage Lending supervises and regulates all areas of Mineola Community Bank's operations including, without limitation, the making of loans, the issuance of securities, the conduct of corporate affairs, the satisfaction of capital adequacy requirements, the payment of dividends, and the establishment or closing of banking offices. The Texas Department of Savings and Mortgage Lending also conducts examinations of state savings banks and generally conducts joint examinations with the Federal Deposit Insurance Corporation. The Texas Department of Savings and Mortgage Lending charges assessments and fees which recover the costs of examining state savings banks, processing applications and other filings and covering direct and indirect expenses in regulating state savings banks. The Texas Department of Savings and Mortgage Lending also has certain enforcement powers over Mineola Community Bank.

The Federal Deposit Insurance Corporation is Mineola Community Bank's primary federal regulator, which periodically examines Mineola Community Bank's operations and financial condition and compliance with federal consumer protection laws. In addition, Mineola Community Bank's deposit accounts are insured by the Federal Deposit Insurance Corporation to the maximum extent permitted by law, and it has certain enforcement powers over the Bank.

Mineola Community Bank is empowered by statute, subject to the limitations contained in those statutes, to take and pay interest on savings and time deposits, to accept demand deposits, to make loans on residential and other real estate, to make consumer and commercial loans, to invest, with certain limitations, in equity securities and in debt obligations of banks and corporations and to provide various other banking services for the benefit of Mineola Community Bank's customers. Various state consumer laws and regulations also affect the operations of Mineola Community Bank, including state usury laws and consumer credit laws.

Texas law further provides that, subject to the limitations established by rule of the Texas Finance Commission, a Texas savings bank may make any loan or investment or engage in any activity permitted under state law for a bank or savings and loan association or under federal law for a federal savings and loan association, savings bank or national bank if such institution's principal office is located in Texas. This provision is commonly referred to as the "Expansion of Powers" provision of the Texas Finance Code applicable to state savings banks.

Under federal law, a Texas state savings bank is a state bank. The Federal Deposit Insurance Corporation Improvement Act of 1991 provides that no state bank or any subsidiary of a state bank may engage as a principal in any activity not permitted for national banks, unless the institution complies with applicable capital requirements and the Federal Deposit Insurance Corporation determines that the activity poses no significant risk to the Deposit Insurance Fund.

Texas state-chartered savings banks are required to maintain at least 50% of their portfolio assets in qualified thrift investments as defined by in federal law and other assets determined by the Commissioner of the Texas Department of Savings and Mortgage Lending under rules adopted by the Texas Finance Commission, to be substantially equivalent to qualified thrift investments or which further residential lending or community development.

Capital Requirements. Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets ratio of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio.

In determining the amount of risk-weighted assets for calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (*e.g.*, recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk-weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital is generally defined as common stockholders' equity and related surplus and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain non-cumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, the Federal Deposit Insurance Corporation takes into consideration not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements.

Federal law required the federal banking agencies, including the Federal Deposit Insurance Corporation, to establish a "community bank leverage ratio" of between 8% and 10% for institutions with assets of less than $10 billion. Institutions with capital complying with the ratio and otherwise meeting the specified requirements and electing the alternative framework are considered to comply with the applicable regulatory capital requirements, including the risk-based requirements. The community bank leverage ratio was established at 9% Tier 1 capital to total average assets, effective January 1, 2020. A qualifying institution may opt in and out of the community bank leverage ratio framework on its quarterly call report. An institution that temporarily ceases to meet any qualifying criteria is provided with a two-quarter grace period to regain compliance. Failure to meet the qualifying criteria within the grace period or maintain a leverage ratio of 8% or greater requires the institution to comply with the generally applicable regulatory capital requirements.

The CARES Act lowered the community bank leverage ratio to 8%, with federal regulation making the reduced ratio effective April 23, 2020. Another rule was issued to transition back to the 9% community bank leverage ratio by increasing the ratio to 8.5% for calendar year 2021 and to 9% thereafter.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements.

At December 31, 2022, Mineola Community Bank had opted into the community bank leverage ratio framework and its capital exceeded all applicable requirements.

Loans-to-One Borrower. Because of the availability of the savings bank expansion of powers language in the Texas Finance Code, savings banks have flexibility in the calculation of their applicable lending limit. The lending limit applicable to state banks in Texas is broader than the limit applicable to national banks. The Texas Finance Code adopts the lending limit applicable to federal savings associations under federal law for state savings banks, however, Texas savings bank are permitted under the expansion of power authority to adopt the legal lending limit applicable to national banks or state banks. Generally (subject to certain exceptions) the lending limit for loans to one person for national banks and state banks is 15% of unimpaired capital and unimpaired surplus plus an additional 10% of unimpaired capital and unimpaired surplus if the loan is fully secured by readily marketable collateral. The lending limit for state banks in Texas is generally 15% of unimpaired capital and unimpaired surplus plus an additional 10% of unimpaired capital and unimpaired surplus if the loan is fully secured by readily marketable collateral. The adoption of the lending limit for national banks or state banks must incorporate the limitations applicable to the standard adopted. Mineola Community Bank has adopted the lending limit applicable to state banks or 15% of unimpaired capital and unimpaired surplus plus an additional 10% of unimpaired capital and unimpaired surplus for a total of 25% if the loan is fully secured by readily marketable collateral. At December 31, 2022, Mineola Community Bank was in compliance with the loans-to-one borrower limitations.

Capital Distributions. The Federal Deposit Insurance Act generally provides that an insured depository institution may not make any capital distribution if, after making such distribution, the institution would fail to meet any applicable regulatory capital requirement. Unless the approval of the Federal Deposit Insurance Corporation is obtained, Mineola Community Bank may not declare or pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of its net income during the current calendar year and the retained net income of the prior two calendar years. Under Texas law, Mineola Community Bank is permitted to declare and pay a dividend on capital stock only out of current or retained income.

Community Reinvestment Act and Fair Lending Laws. All insured depository institutions have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. The Federal Deposit Insurance Corporation is required to assess Mineola Community Bank's record of compliance with the Community Reinvestment Act. An institution's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Federal Deposit Insurance Corporation, as well as other federal regulatory agencies and the Department of Justice.

The Community Reinvestment Act requires all institutions insured by the Federal Deposit Insurance Corporation to publicly disclose their rating. Mineola Community Bank received a "satisfactory" Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. An insured depository institution's authority to engage in transactions with its affiliates is generally limited by Sections 23A and 23B of the Federal Reserve Act and federal regulation. An affiliate is generally a company that controls, or is under common control with, an insured depository institution such as Mineola Community Bank. Texas Community Bancshares will be an affiliate of Mineola Community Bank because of its control of Mineola Community Bank. In general, transactions between an insured depository institution and its affiliates are subject to certain quantitative limits and collateral requirements. In addition, federal regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates.

Mineola Community Bank's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and

- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Mineola Community Bank's capital.

In addition, extensions of credit in excess of certain limits must be approved by Mineola Community Bank's board of directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

Enforcement. The Federal Deposit Insurance Corporation has primary enforcement responsibility over state savings banks and has authority to bring enforcement action against all "institution-affiliated parties," including directors, officers, stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on a state savings bank. Formal enforcement action by the Federal Deposit Insurance Corporation may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. The Federal Deposit Insurance Corporation also has the authority to terminate deposit insurance.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for the insured depository institutions they supervise. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, compensation and benefits, and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

Branching. Federal law permits insured state banks to engage in interstate branching if the laws of the state where the new banking office is to be established would permit the establishment of the banking office if it were chartered by a bank in such state. Under current Texas law, Mineola Community Bank can establish a branch in Texas or in any other state. All branch applications require prior approval of the Texas Department of Savings and Mortgage Lending and the Federal Deposit Insurance Corporation. Finally, Mineola Community Bank may also establish banking offices in other states by merging with banks or by purchasing banking offices of other banks in other states, subject to certain restrictions.

Prompt Corrective Action. Federal law requires, among other things, that federal banking agencies take "prompt corrective action" with respect to institutions that do not meet minimum capital requirements. For this purpose, the Federal Deposit Insurance Corporation's regulations stablish five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under applicable regulations, an institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on the payment of dividends, and restrictions on the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. An undercapitalized bank's compliance with a capital restoration plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5.0% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional restrictions, including a regulatory order to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, ceasing receipt of deposits from correspondent banks, dismissal of directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

The previously referenced final rule establishing an elective "community bank leverage ratio" regulatory capital framework provides that a qualifying institution whose capital exceeds the community bank leverage ratio and opts to use that framework will be considered "well-capitalized" for purposes of prompt corrective action.

At December 31, 2022, Mineola Community Bank met the criteria for being considered "well capitalized."

Insurance of Deposit Accounts. The Deposit Insurance Fund of the Federal Deposit Insurance Corporation insures deposits at Federal Deposit Insurance Corporation-insured financial institutions such as Mineola Community Bank, generally up to a maximum of $250,000 per separately insured depositor. The Federal Deposit Insurance Corporation charges insured depository institutions premiums to maintain the Deposit Insurance Fund.

Under the Federal Deposit Insurance Corporation's risk-based assessment system, institutions deemed less risky of failure pay lower assessments. Assessments for institutions of less than $10 billion of assets are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of an institution's failure within three years.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of Mineola Community Bank. We cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the Federal Deposit Insurance Corporation upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation. Mineola Community Bank does not know of any practice, condition or violation that may lead to termination of its deposit insurance.

Privacy Regulations. Federal regulations generally require that Mineola Community Bank disclose its privacy policy, including identifying with whom it shares a customer's "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter. In addition, Mineola Community Bank is required to provide its customers with the ability to "opt-out" of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. Mineola Community Bank currently has a privacy protection policy in place and believes that such policy is in compliance with the regulations.

USA PATRIOT Act. Mineola Community Bank is subject to the USA PATRIOT Act, which gives federal agencies additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. The USA PATRIOT Act contains provisions intended to encourage information sharing among bank regulatory agencies and law enforcement bodies and imposes affirmative obligations on financial institutions, such as enhanced recordkeeping and customer identification requirements.

Prohibitions Against Tying Arrangements. State savings banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Other Regulations

Interest and other charges collected or contracted for by Mineola Community Bank are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to state and federal laws applicable to credit transactions, such as the:

- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies; and

- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of Mineola Community Bank also are subject to, among others, the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check; and

- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Federal Home Loan Bank System

Mineola Community Bank is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Members of the Federal Home Loan Bank are required to acquire and hold shares of capital stock in their Federal Home Loan Bank. Mineola Community Bank complied with this requirement at December 31, 2022. Based on redemption provisions of the Federal Home Loan Bank of Dallas, the stock has no quoted market value and is carried at cost. Mineola Community Bank reviews for impairment, based on the ultimate recoverability, the cost basis of the Federal Home Loan Bank of Dallas stock. At December 31, 2022, no impairment had been recognized.

Holding Company Regulation

Texas Community Bancshares is a bank holding company within the meaning of Bank Holding Company of 1956, as amended. As such, Texas Community Bancshares is registered with the Federal Reserve Board and subject to regulations, examinations, supervision and reporting requirements applicable to bank holding companies. In addition, the Federal Reserve Board has enforcement authority over Texas Community Bancshares and its non-savings bank subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to Mineola Community Bank.

A bank holding company is generally prohibited from engaging in non-banking activities, or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings association whose direct and indirect activities are limited to those permitted for bank holding companies.

The Gramm-Leach-Bliley Act of 1999 authorized a bank holding company that meets specified conditions, including being "well capitalized" and "well managed," to opt to become a "financial holding company" and thereby engage in a broader array of financial activities than previously permitted. Such activities can include insurance underwriting and investment banking.

Bank holding companies with less than $3 billion in consolidated assets are exempt from consolidated regulatory capital requirements unless the Federal Reserve Board determines otherwise in particular cases.

By law, holding companies, including bank holding companies, must act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

The Federal Reserve Board has issued supervisory policies regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies and savings and loan holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of capital distributions previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The policy statement also states that a holding company should inform the Federal Reserve Board supervisory staff before redeeming or repurchasing common stock or perpetual preferred stock if the holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction, at the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of Texas Community Bancshares to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Change in Control Regulations

Under the Change in Bank Control Act, no person or group of persons may acquire "control" of a bank holding company, such as Texas Community Bancshares, unless the Federal Reserve Board has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the institution's directors, or a determination by the regulator that the acquirer has the power, directly or indirectly, to exercise a controlling influence over the management or policies of the institution. There is a presumption of control upon the acquisition of 10% or more of a class of voting stock if the holding company involved has its shares registered under the Securities Exchange Act of 1934, or, of the holding company involved does now have its shares registered under the Securities Exchange Act of 1934, if no other persons will own, control or hold the power to vote a greater percentage of that class of voting security after the acquisition.

Federal Securities Laws

The common stock of Texas Community Bancshares is registered with the Securities and Exchange Commission. Texas Community Bancshares is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. We have policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

Emerging Growth Company Status

Texas Community Bancshares is an emerging growth company. For as long as it continues to be an emerging growth company, it may choose to take advantage of exemptions from various reporting requirements applicable to public companies. These exemptions include, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. As an emerging growth company, Texas Community Bancshares also will not be subject to Section 404(b) of the Sarbanes-Oxley Act of 2002, which would require that our independent auditors audit our internal control over financial reporting. We have also elected not to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Such an election is irrevocable during the period a company is an emerging growth company.

Texas Community Bancshares will cease to be an emerging growth company upon the earliest of: (i) the end of the fiscal year following the fifth anniversary of the completion of the Conversion; (ii) the first fiscal year after our annual gross revenues are $1.07 billion (adjusted for inflation) or more; (iii) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt securities; or (iv) the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded $700 million at the end of the second quarter of that fiscal year. We expect to lose our status as an emerging growth company effective December 31, 2026, which is the end of the fiscal year following the fifth anniversary of the completion date of the Conversion.

Taxation

Mineola Community Bank and Texas Community Bancshares are subject to federal and state income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal and state taxation is intended only to summarize certain pertinent tax matters and is not a comprehensive description of the tax rules applicable to Texas Community Bancshares or Mineola Community Bank.

Our federal and state tax returns have not been audited for the past five years.

Federal Taxation

Method of Accounting. Mineola Community Bank currently reports income and expenses on the accrual method of accounting and use a tax year ending December 31 for filing their federal income tax returns. The Small Business Protection Act of 1996 eliminated the use of the reserve method of accounting for income taxes on bad debt reserves by savings institutions. For taxable years beginning after 1995, Mineola Community Bank has been subject to the same bad debt reserve rules as commercial banks. It currently utilizes the specific charge-off method under Section 582(a) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). Texas Community Bancshares and Mineola Community Bank will file a consolidated federal income tax return.

Alternative Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, less an exemption amount, referred to as "alternative minimum taxable income." The alternative minimum tax is payable to the extent tax computed this way exceeds tax computed by applying the regular tax rates to regular taxable income. Net operating losses can, in general, offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. The Tax Cuts and Jobs Act repealed the alternative minimum tax for income generated after January 1, 2018. At December 31, 2022, Mineola Community Bank had no minimum tax credit carryovers.

Net Operating Loss Carryovers. As a result of the Tax Cuts and Jobs Act generally, a financial institution may carry net operating losses forward indefinitely. At December 31, 2022, Mineola Community Bank had no federal net operating loss carryforwards.

Capital Loss Carryovers. A corporation cannot recognize capital losses in excess of capital gains generated. Generally, a financial institution may carry back capital losses to the preceding three taxable years and forward to the succeeding five taxable years. Any capital loss carryback or carryover is treated as a short-term capital loss for the year to which it is carried. As such, it is grouped with any other capital losses for the year to which it is carried and is used to offset any capital gains. Any undeducted loss remaining after the five-year carryover period is no longer deductible. At December 31, 2022, Mineola Community Bank had no capital loss carryovers.

Corporate Dividends. Texas Community Bancshares, Inc. may generally exclude from its income 100% of dividends received from Mineola Community Bank, as a member of the same affiliated group of corporations.

State Taxation

Texas State Taxation. Texas Community Bancshares and Mineola Community Bank file a combined annual report and pay franchise tax to the State of Texas.

Maryland State Taxation. As a Maryland business corporation, Texas Community Bancshares is required to file a personal property and income tax return and pay taxes to the State of Maryland.

ITEM 1A. **Risk Factors**

Not applicable, as Texas Community Bancshares is a "smaller reporting company."

ITEM 1B. **Unresolved Staff Comments**

None.

ITEM 2. **Properties**

As of December 31, 2022, the net book value of our land, building and equipment was $6.2 million. The following table sets forth information regarding our offices as of December 31, 2022:

Location	Leased or Owned	Year Acquired or Leased	Net Book Value of Real Property (In thousands)
Main Office:			
215 West Broad Street Mineola, TX 75773	Own	1964	$ 1,828
Branch Offices:			
1224 North Pacific Street Mineola, TX 75773	Lease	1999	$ 83
415 West Frank Street Grand Saline, TX 75140	Own	2006	$ 929
500 South Main Street Winnsboro, TX 75494	Own	2005	$ 1,228
304 South Main Street Lindale, TX 75771	Own	2017	$ 1,297
500 West Pine Street Edgewood, TX 75117	Own	2018	$ 840

We are currently in the process of building a new branch office in the same location as the current office in Lindale. We believe that all other current facilities are adequate to meet our present and foreseeable needs, subject to possible future expansion.

ITEM 3. **Legal Proceedings**

Periodically, we are involved in claims and lawsuits, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. At December 31, 2022, we were not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. **Mine Safety Disclosures**

Not applicable.

PART II

ITEM 5. **Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The common stock of Texas Community Bancshares is listed on The Nasdaq Capital Market under the symbol "TCBS". As of March 1, 2023, we had 562 stockholders of record, and 3,373,723 shares of common stock outstanding.

The payment and amount of any dividend payments is subject to statutory and regulatory limitations, and depends upon a number of factors, including the following: regulatory capital requirements; our financial condition and results of operations; tax considerations; and general economic conditions.

There were no sales of unregistered securities or repurchases of shares of common stock during the year ended December 31, 2022.

ITEM 6. Reserved

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis reflects our consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from the consolidated financial statements, which appear elsewhere in this annual report. You should read the information in this section in conjunction with the other business and financial information provided in this annual report.

Overview

Our business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings from the Federal Home Loan Bank of Dallas, in residential real estate loans and commercial real estate loans and, to a lesser extent, commercial loans, construction and land loans, and consumer and other loans. Substantially all of our loans are fixed-rate loans. We also invest in securities, which have historically consisted primarily of mortgage-backed securities and obligations issued by U.S. government sponsored enterprises, state and municipal securities, and Federal Home Loan Bank stock. We offer a variety of deposit accounts, including checking accounts, savings accounts and certificate of deposit accounts. Mineola Community Bank is subject to comprehensive regulation and examination by the Texas Department of Savings and Mortgage Lending and the Federal Deposit Insurance Corporation and is a member of the Federal Home Loan Bank system.

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets and the interest we pay on our interest-bearing liabilities. Our results of operations also are affected by our provisions for loan and lease losses, non-interest income and non-interest expense. Non-interest income currently consists primarily of service charges on deposit accounts, other service charges and fees, and income from bank owned life insurance. Non-interest expense currently consists primarily of expenses related to salaries and employee benefits, occupancy and equipment, data processing, contract services, director fees, and other expenses.

We invest in bank owned life insurance to provide us with a funding source to offset some costs of our benefit plan obligations. Bank owned life insurance provides us with non-interest income that is nontaxable. Federal regulations generally limit our investment in bank owned life insurance to 25% of our Tier 1 capital plus our allowance for loan and lease losses. At December 31, 2022, our investment in bank owned life insurance was $6.1 million, which was within this investment limit.

Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

Business Strategy

Our current business strategy consists of the following:

- ***Continue to serve our community as a community bank.*** Since our founding in 1934, we have operated as a community bank. Historically, our primary lending activity has been the origination of fixed-rate residential mortgage loans to individuals in our market area funded primarily by deposits gathered from individuals and businesses in our market area. We expect that this will continue to be the focus of our business for the foreseeable future. As part of our customer focus, we generally do not sell the loans we originate but retain them in our portfolio. When customers have questions regarding their loans, they are able to deal directly with us rather than another institution. At December 31, 2022, one- to four-family residential mortgage loans totaled $162.8 million, or 64.3% of total loans. This amount includes one- to four-family residential mortgage loans originated in the Dallas Metroplex. We have originated one- to four-family residential mortgage loans secured primarily by owner-occupied properties primarily located in the northern and eastern sections of the Dallas Metroplex. We began originating these loans in 2014, and continue to do so primarily through word-of-mouth referrals. At December 31, 2022, these loans amounted to $61.8 million including $41.4 million of jumbo loans.

- ***Grow and diversify our loan portfolio prudently.*** There has been an influx of retirees and others from the Dallas metropolitan area into our market area. Our more rural market area offers a lower-cost of living and many recreational amenities, while being within easy reach of the cities of Dallas and Tyler and the urban amenities they offer. We believe this movement away from major cities like Dallas has been accelerated by the work-from-home trend that accelerated due to the COVID-19 pandemic. In 2018, we opened our branch office in Lindale, Texas, and acquired our branch office in Edgewood, Texas, from another bank. These offices are located in growth areas of our market area because of their closer proximity to Tyler and Dallas, respectively. The influx of population into our market area has provided opportunities for residential mortgage lending, construction and land lending, and commercial real estate lending. Although we intend to continue our historical focus on the origination of residential mortgage loans, we intend to prudently increase our commercial real estate lending and construction and land lending so as to continue to diversify our loan portfolio. At December 31, 2022, commercial real estate loans amounted to $33.7 million, or 13.3% of total loans, and construction and land loans amounted to $36.3 million, or 14.3% of total loans.

  Our commercial real estate loans and construction and land loans have higher credit risk than our residential mortgage loans.

- ***Continue to grow core deposits.*** We consider our core deposits to include statement savings accounts, money market accounts, negotiable orders of withdrawal (NOW) accounts, other savings deposits and checking accounts. We will continue our efforts to increase our core deposits to provide a stable source of funds to support loan growth at costs consistent with improving our interest rate spread and net interest margin. Core deposits totaled $206.7 million, or 69.8% of total deposits, as of December 31, 2022, compared to $159.4 million, or 58.0% of total deposits, as of December 31, 2021.

- ***Continue to manage credit risk to maintain a low level of non-performing assets.*** Historically, we have been able to maintain a high level of asset quality. We believe strong asset quality remains a key to our long-term financial success. Our total non-performing assets to total assets ratio was 0.28% and 0.49% at December 31, 2022 and 2021, respectively. Our strategy for credit risk management continues to focus on having an experienced team of credit professionals, well-defined policies and procedures, appropriate loan underwriting criteria and active credit monitoring. Furthermore, given the uncertainty surrounding the length and severity of the COVID-19 pandemic, management has established and will continue to use enhanced underwriting criteria for all loan types, with a particular focus on portfolio segments identified as having elevated risk.

- ***Continue to support our customers and our local community***. The COVID-19 pandemic has restricted the level of economic activity in our markets, resulting in dramatically increased unemployment and significant negative impacts on many businesses, thereby threatening the repayment ability of some of our borrowers. As we have done during prior economic downturns, we are taking actions to support our customers and our local community. For example, during the year ended December 31, 2020, we originated $5.4 million of small business loans under the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"), created by the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") that was signed into law in March 2020. Under the PPP, loan amounts were forgiven if the borrower maintains employee payrolls and meets certain other requirements. As of December 31, 2022, only two small PPP loans totaling $2,000 were outstanding. The remaining PPP loans have been forgiven or paid. During the year ended December 31, 2020, we also granted short-term payment deferrals on loans to assist customers during the COVID-19 pandemic. There were no COVID-19 related deferrals granted in the years ended December 31, 2021 or 2022.

- ***Grow organically and through opportunistic acquisitions or branching.*** We intend to grow our assets organically on a managed basis, and the capital we raised in the offering will enable us to increase our lending and investment capacity. In addition to organic growth, we may also consider expansion opportunities in our market area or in contiguous markets that we believe would enhance both our franchise value and stockholder returns. These opportunities may include acquiring other financial institutions and/or establishing loan production offices, establishing new, or de novo, branch offices and/or acquiring branch offices, and the capital we raised in the offering will help us fund any such opportunities that may arise. We have no current plans or intentions regarding any such expansion activities.

Summary of Critical Accounting Policies and Critical Accounting Estimates

The discussion and analysis of the financial condition and results of operations are based on our consolidated financial statements, which are prepared in conformity with U.S. GAAP. 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 JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We determined not to take advantage of the benefits of this extended transition period.

The following represent our critical accounting policies:

Allowance for Loan and Lease Losses. The allowance for loan and lease losses is a reserve for estimated probable credit losses on individually evaluated loans determined to be impaired as well as estimated probable credit losses inherent in the loan portfolio. Actual credit losses, net of recoveries, are deducted from the allowance for loan and lease losses. Loans are charged off when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for loan and lease losses. A provision for loan and lease losses, which is a charge against earnings, is recorded to bring the allowance for loan and lease losses to a level that, in management's judgment, is adequate to absorb probable losses in the loan portfolio. Management's evaluation process used to determine the appropriateness of the allowance for loan and lease losses is subject to the use of estimates, assumptions, and judgment. The evaluation process involves gathering and interpreting many qualitative and quantitative factors which could affect probable credit losses. Because interpretation and analysis involves judgment, current economic or business conditions can change, and future events are inherently difficult to predict, the anticipated amount of estimated loan and lease losses and therefore the appropriateness of the allowance for loan and lease losses could change significantly.

The allocation methodology applied by Mineola Community Bank is designed to assess the appropriateness of the allowance for loan and lease losses and includes allocations for specifically identified impaired loans and loss factor allocations for all remaining loans, with a component primarily based on historical loss rates 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 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 allocation of the allowance for loan and lease losses is made for analytical purposes and 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 loan and lease losses was adequate at December 31, 2022. The allowance analysis is reviewed by the board of directors on a quarterly basis in compliance with regulatory requirements. In addition, various regulatory agencies periodically review the allowance for loan and lease losses. As a result of such reviews, we may have to adjust our allowance for loan and lease losses. However, regulatory agencies are not directly involved in the process of establishing the allowance for loan and lease losses as the process is the responsibility of Mineola Community Bank and any increase or decrease in the allowance is the responsibility of management.

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.

Texas Community Bancshares files consolidated federal income tax returns with Mineola Community Bank. 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.

Selected Financial Data

The following selected consolidated financial data sets forth certain financial highlights of the Company and should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

	At December 31, 2022	At December 31, 2021
	(In thousands)	
Selected Financial Condition Data:		
Total assets	$ 417,346	$ 364,826
Cash and cash equivalents	8,927	21,915
Interest bearing deposits in banks	2,055	14,955
Securities available for sale	107,153	56,800
Securities held to maturity	27,827	33,682
Loans receivable, net	251,338	220,267
Premises and equipment, net	6,299	6,215
Foreclosed assets	—	209
Restricted investments carried at cost	2,805	2,037
Bank owned life insurance	6,125	6,020
Core deposit intangible	397	529
Total deposits	296,077	274,933
Advances from the Federal Home Loan Bank	62,494	27,571
Total shareholders' equity	55,870	60,132

	For the Years Ended December 31, 2022	For the Years Ended December 31, 2021
	(In thousands)	
Selected Operating Data:		
Interest income	$ 12,566	10,534
Interest expense	2,283	2,116
Net interest income	10,283	8,418
Provision for loan and lease losses	208	50
Net interest income after provision for loan and lease losses	10,075	8,368
Noninterest income	1,868	1,717
Noninterest expense	9,766	9,474
Income before income taxes	2,177	611
Income tax expense	423	93
Net income	$ 1,754	$ 518

	At or For the Years Ended December 31,	
	2022	2021
Performance Ratios:		
Return on average assets	0.47 %	0.15 %
Return on average equity	4.01 %	1.39 %
Interest rate spread (1)	2.70 %	2.49 %
Net interest margin (2)	2.89 %	2.66 %
Noninterest expense to average assets	2.59 %	2.80 %
Efficiency ratio (3)	80.37 %	93.48 %
Average interest-earning assets to average interest-bearing liabilities	130.59 %	124.96 %
Capital Ratios:		
Average equity to average assets	11.61 %	11.05 %
Total capital to risk-weighted assets	28.93 %	27.59 %
Tier 1 capital to risk-weighted assets	27.92 %	26.68 %
Common equity tier 1 capital to risk-weighted assets	27.92 %	26.68 %
Tier 1 capital to average assets	12.31 %	12.89 %
Asset Quality Ratios:		
Allowance for loan and lease losses as a percentage of total loans	0.69 %	0.72 %
Allowance for loan and lease losses as a percentage of non-performing loans	148.60 %	100.13 %
Allowance for loan and lease losses as a percentage of non-accrual loans	148.60 %	100.13 %
Non-accrual loans as a percentage of total loans	0.47 %	0.72 %
Net (charge-offs) recoveries to average outstanding loans during the year	0.01 %	(0.01)%
Non-performing loans as a percentage of total loans	0.47 %	0.72 %
Non-performing loans as a percentage of total assets	0.28 %	0.44 %
Total non-performing assets as a percentage of total assets	0.28 %	0.49 %
Other Data:		
Number of offices	6	6
Number of full-time employees	61	60
Number of part-time employees	5	2

(1) Represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(2) Represents net interest income as a percentage of average interest-earning assets.
(3) Represents noninterest expenses divided by the sum of net interest income and noninterest income.

The following table summarizes securities available for sale:

	December 31, 2022 Fair Value	December 31, 2022 Percentage of Total	December 31, 2021 Fair Value	December 31, 2021 Percentage of Total
Securities available for sale:				
Residential mortgage-backed	$ 23,758	22.2 %	$ 18,785	33.1 %
Collateralized mortgage obligations	50,244	46.9 %	11,076	19.5 %
State and municipal	13,781	12.9 %	11,539	20.3 %
Corporate bonds	4,815	4.4 %	2,406	4.2 %
U.S. Government and agency	14,555	13.6 %	12,994	22.9 %
Total securities available for sale	$ 107,153	100.0 %	$ 56,800	100.0 %

The following table sets forth information regarding fair values, weighted average yields and maturities of available for sale investments. The yields have been computed on a tax equivalent basis. Maturities are based on the final contractual payment dates and do not reflect the impact of prepayments or early redemptions that may occur.

December 31, 2022	Due in One Year Fair Value	Due in One Year Weighted Average Yield	One to Five Years Fair Value	One to Five Years Weighted Average Yield	Five to Ten Years Fair Value	Five to Ten Years Weighted Average Yield	After Ten Years Fair Value	After Ten Years Weighted Average Yield	Total Investment Securities Fair Value	Total Investment Securities Weighted Average Yield
Securities available for sale:										
Residential mortgage-backed	$ 3	2.17 %	$ 73	2.09 %	$ 5,472	1.57 %	$ 18,210	3.89 %	$ 23,758	3.35 %
Collateralized mortgage obligations	—	— %	6,002	6.21 %	5,860	6.15 %	38,382	4.66 %	50,244	5.02 %
State and municipal	—	— %	1,027	1.76 %	8,596	2.38 %	4,158	3.31 %	13,781	2.62 %
Corporate bonds	—	— %	—	— %	3,679	3.51 %	1,136	3.56 %	4,815	3.52 %
U.S. Government and agency	—	— %	12,748	0.83 %	1,807	1.04 %	—	— %	14,555	0.86 %
Total securities available for sale	$ 3		$ 19,850		$ 25,414		$ 61,886		$ 107,153	

The following table summarizes securities held to maturity:

	December 31, 2022 Amortized Cost	December 31, 2022 Percentage of Total	December 31, 2021 Amortized Cost	December 31, 2021 Percentage of Total
Securities held to maturity:				
Residential mortgage-backed	$ 25,817	92.8 %	$ 31,277	92.9 %
State and municipal	2,010	7.2 %	2,405	7.1 %
Total securities held to maturity	$ 27,827	100.0 %	$ 33,682	100.0 %

The following table sets forth information regarding amortized costs, weighted average yields and maturities of all held to maturity investments. The yields have been computed on a tax equivalent basis. Maturities are based on the final contractual payment dates and do not reflect the impact of prepayments or early redemptions that may occur.

December 31, 2022	Due in One Year Amortized Cost	Due in One Year Weighted Average Yield	One to Five Years Amortized Cost	One to Five Years Weighted Average Yield	Five to Ten Years Amortized Cost	Five to Ten Years Weighted Average Yield	After Ten Years Amortized Cost	After Ten Years Weighted Average Yield	Total Investment Securities Amortized Cost	Total Investment Securities Weighted Average Yield
Securities held to maturity:										
Residential mortgage-backed	$ —	— %	$ 659	2.87 %	$ 8,743	1.88 %	$ 16,415	1.44 %	$ 25,817	1.62 %
State and municipal	—	— %	764	2.62 %	134	2.74 %	1,112	4.03 %	2,010	3.41 %
Total securities held to maturity	$ —		$ 1,423		$ 8,877		$ 17,527		$ 27,827	

Comparison of Financial Condition at December 31, 2022 and December 31, 2021

Total Assets. Total assets were $417.3 million as of December 31, 2022, an increase of $52.5 million, or 14.4%, when compared to total assets of $364.8 million as of December 31, 2021. The increase was due primarily to an increase in securities of $44.5 million, or 49.2%, to $135.0 million at December 31, 2022 from $90.5 million at December 31, 2021 and an increase in net loans and leases of $31.0 million, or 14.1%, to $251.3 million at December 31, 2022 from $220.3 million at December 31, 2021, partially offset by decreases in cash, cash equivalents and interest bearing deposits in banks by a combined $25.9 million, or 70.2%, to $11.0 million at December 31, 2022 from $36.9 million at December 31, 2021. Asset growth was primarily due to increases in deposits, including $12.0 million in callable brokered deposits, and FHLB advances being invested in securities as part of a strategic purchase plan and loan growth.

Cash, Cash Equivalents and Due From Banks. Total cash, cash equivalents and due from banks (which includes fed funds sold) decreased $13.0 million, or 59.4%, to $8.9 million (including $2.0 million in Fed Funds sold) at December 31, 2022 from $21.9 million (including $16.3 million in Fed Funds sold) at December 31, 2021. This decrease is primarily due to an increase in securities of $44.5 million, or 49.2%, and an increase in net loans and leases of $31.0 million, or 14.1%, partially offset by increase in deposits of $21.2 million, or 7.7%, and an increase in Federal Home Loan Bank (FHLB) borrowings of $34.9 million, or 126.4%.

Interest Bearing Deposits in Banks. Interest bearing deposits in banks were $2.1 million at December 31, 2022 compared to $15.0 million as of December 31, 2021, a decrease of $12.9 million, or 86.0%. The decrease was due primarily to the net increases in securities and net loans and leases, partially offset by increased deposits and FHLB borrowings.

Securities Available for Sale. Securities available for sale (AFS) increased by $50.4 million, or 88.7%, to $107.2 million at December 31, 2022 from $56.8 million at December 31, 2021. The increase in securities included the investment of $75.3 million in AFS securities, including purchases of $13.8 million in US Treasuries, $9.8 million in mortgage-backed securities (MBS), $43.6 million in collateralized mortgage obligations (CMO), $4.8 million in municipals, and $3.3 million in bank subordinated debt, partially reduced by sales of $10.8 million, paydowns of $5.9 million, and increases in unrealized losses on the AFS portfolio of $8.0 million. Securities purchases were part of a strategic plan funded by excess cash, brokered deposits and FHLB advances.

Securities Held to Maturity. Securities held to maturity decreased by $5.9 million, or 17.5%, to $27.8 million at December 31, 2022 from $33.7 million at December 31, 2021. This decrease is primarily due to principal repayments of $5.3 million and a call on a municipal security totaling $365,000.

Loans and Leases Receivable, Net. Net loans and leases receivable increased $31.0 million, or 14.1%, to $251.3 million at December 31, 2022 from $220.3 million at December 31, 2021, including a reduction in PPP loans of $11,000, or 84.6%, from $13,000 at December 31, 2021 to $2,000 at December 31, 2022. During the year ended December 31, 2022, loans were originated totaling $109.7 million of which $13.6 million were renewals or refinancings of existing Mineola Community Bank loans, resulting in net originations of $96.1 million. Loan originations consisted primarily of $32.8 million of 1-4 family home loans, $54.7 million of construction loans (upon completion), including residential speculative construction loans of $11.9 million, $10.1 million in multi-family construction, $7.5 million in commercial real estate, $2.1 million in land and development, $4.2 million of consumer and other loan originations, $4.8 million in commercial and industrial, $3.4 million in farmland and $112,000 in other agricultural loan originations. During the year ended December 31, 2022, there were $13.0 million in loan principal paydowns and $48.3 million in loan payoffs. During the year ended December 31, 2022, total construction loans (including the 43.1% remaining in process) increased by $30.7 million from $23.3 million at December 31, 2021 to $54.0 million at December 31, 2022. Construction loans continue to be a growing segment of our portfolio with the majority of the loans being originated in our primary market. Demand for construction, development and 1-4 family home loan purchases continued to grow in 2022.

Deposits. Deposits increased $21.1 million, or 7.7%, to $296.1 million at December 31, 2022 from $274.9 million at December 31, 2021. Core deposits (defined as all deposits other than certificates of deposit) increased $4.3 million, or 2.1%, to $206.7 million at December 31, 2022 from $202.4 million at December 31, 2021. The large growth in deposits includes $12.0 million in brokered deposits issued to partially fund an investment strategy. Retail certificates of deposit increased $4.7 million, or 6.5%, to $77.3 million at December 31, 2022 from $72.5 million at December 31, 2021. The increase in retail deposits is primarily due to the large increase in market interest rates and a strategic effort to retain deposits in a competitive environment during 2022.

Advances from the Federal Home Loan Bank. Advances from the Federal Home Loan Bank increased by $34.9 million, or 126.7%, to $62.5 million at December 31, 2022 from $27.6 million at December 31, 2021 primarily due to funding a strategic securities purchase plan while providing funds to mitigate deposit fluctuations and deposit pricing volatility.

Shareholders' Equity. Total shareholders' equity decreased $4.2 million, or 7.0%, to $55.9 million at December 31, 2022 from $60.1 million at December 31, 2021. The decrease was primarily the result of the unrealized loss on available for sale securities and the corresponding accumulated other comprehensive loss increasing by $6.3 million, or 920.3%, to $7.0 million at December 31, 2022 from $686,000 at December 31, 2021 primarily due to the rising interest rate environment and $297,000 in benefits cost related to the 2022 funding of the Mineola Community Bank leveraged ESOP plan and the 2022 equity incentive plan. At December 31, 2022, the ESOP contra equity account was $2.3 million.

At December 31, 2022, Mineola Community Bank opted to use the community bank leverage ratio framework (Tier 1 capital to average assets) for regulatory capital purposes. At December 31, 2022 a community bank leverage ratio of at least 9.0% is required to be considered "well capitalized" under regulatory requirements. At December 31, 2022, Mineola Community Bank's community bank leverage ratio was 12.31%.

Average Balance Sheets

The following tables set forth average balance sheets, 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 included in the computation of average balances. Average yields for loans (excluding PPP loans) include loan fees of $399,000 and $579,000 for the years ended December 31, 2022 and 2021, respectively. There were no loan fees for PPP loans included in the average yield for the years ended December 31, 2022 or 2021. We have not recorded deferred loan fees, as we have determined them to be immaterial.

	For the Years Ended December 31,					
	2022			2021		
	Average Outstanding Balance	Interest	Average Yield/Rate	Average Outstanding Balance	Interest	Average Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans (excluding PPP loans)	$ 234,815	$ 10,074	4.29 %	$ 216,207	$ 9,569	4.43 %
Allowance for loan and lease losses	(1,641)	—	—	(1,576)	—	—
PPP loans	7	—	— %	545	6	1.10 %
Securities	104,650	2,316	2.21 %	59,083	857	1.45 %
Restricted stock	2,104	38	1.81 %	2,029	22	1.08 %
Interest-bearing deposits in banks	4,475	39	0.87 %	18,677	56	0.30 %
Federal funds sold	10,792	99	0.92 %	22,080	24	0.11 %
Total interest-earning assets	355,202	12,566	3.54 %	317,045	10,534	3.32 %
Noninterest-earning assets	21,628			21,357		
Total assets	$ 376,830			$ 338,402		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 74,519	264	0.35 %	$ 69,116	234	0.34 %
Regular savings and other deposits	78,866	277	0.35 %	70,338	263	0.37 %
Money market deposits	13,715	107	0.78 %	9,758	36	0.37 %
Certificates of deposit	71,598	848	1.18 %	75,080	957	1.27 %
Total interest-bearing deposits	238,698	1,496	0.63 %	224,292	1,490	0.66 %
Advances from the Federal Home Loan Bank	32,822	777	2.37 %	29,061	615	2.12 %
Other liabilities	488	10	2.05 %	371	11	2.96 %
Total interest-bearing liabilities	272,008	2,283	0.84 %	253,724	2,116	0.83 %
Noninterest-bearing demand deposits	57,280			43,454		
Other noninterest-bearing liabilities	3,805			3,840		
Total liabilities	333,093			301,018		
Total shareholders' equity	43,737			37,384		
Total liabilities and shareholders' equity	$ 376,830			$ 338,402		
Net interest income		$ 10,283			$ 8,418	
Net interest rate spread (1)			2.70 %			2.49 %
Net interest-earning assets (2)	$ 83,194			$ 63,321		
Net interest margin (3)			2.89 %			2.66 %
Average interest-earning assets to interest-bearing liabilities			130.59 %			124.96 %

(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.

Rate/Volume Analysis

The following tables present the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by current year volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume. There were no out-of-period items or adjustments required to be excluded from the table below.

	Years Ended December 31, 2022 vs. 2021		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(In thousands)		
Interest-earning assets:			
Loans (excluding PPP loans)	$ 824	$ (319)	$ 505
PPP loans	(6)	—	(6)
Securities	661	798	1,459
Restricted stock	1	15	16
Interest-bearing deposits in banks	(43)	26	(17)
Federal funds sold and other	(12)	87	75
Total interest-earning assets	1,425	607	2,032
Interest-bearing liabilities:			
Interest-bearing demand deposits	18	12	30
Regular savings and other deposits	32	(18)	14
Money market deposits	15	56	71
Certificates of deposit	(44)	(65)	(109)
Total deposits	21	(15)	6
Advances from the Federal Home Loan Bank	80	82	162
Other interest-bearing liabilities	3	(4)	(1)
Total interest-bearing liabilities	104	63	167
Change in net interest income	$ 1,321	$ 544	$ 1,865

Comparison of Operating Results for the Years Ended December 31, 2022 and December 31, 2021

Net Income. Net income was $1.8 million for the year ended December 31, 2022, compared to net income of $518,000 for the year ended December 31, 2021, an increase of $1.2 million, or 238.6%. The increase was primarily due to a $1.9 million, or 22.2%, increase in net interest income and a $151,000, or 8.8%, increase in noninterest income. This increase was partially offset by a $292,000, or 3.1%, increase in noninterest expense, a $158,000, or 316.0%, increase in the provision for loan and lease losses and a $330,000, or 354.8%, increase in income tax expense.

Interest Income. Interest income increased $2.1 million, or 20.0%, to $12.6 million for the year ended December 31, 2022 from $10.5 million at December 31, 2021. This increase resulted primarily from an increase in average interest earning assets of $38.2 million, or 12.1%, from $317.0 million at December 31, 2021 to $355.2 million at December 31, 2022 and an increase of 22 basis points, or 6.5%, in average yield on interest–earning assets from 3.32% at December 31, 2021 to 3.54% at December 31, 2022.

The interest income increase is primarily due to an increase in the average balance of securities of $45.5 million, or 77.0%, from $59.1 million, for the year ended December 31, 2021 to $104.6 million for the year ended December 31, 2022 and an increase in the average yield on securities of 76 basis points, or 52.6%, from 1.45% for the year ended December 31, 2021 to 2.21% for the year ended December 31, 2022. The yield increase is reflective of an increase in market interest rate increases and the diversification of the securities portfolio to include higher yielding commercial mortgage-backed securities, subordinated bank debt and other bonds that are not tied to conventional residential mortgages. Securities interest income increased $1.5 million, or 170.2%, from $857,000 for the year ended December 31, 2021 to $2.3 million for the year ended December 31, 2022.

Interest income on net loans and leases, excluding PPP loan interest, increased $505,000, or 5.3%, to $10.1 million for the year ended December 31, 2022 from $9.6 million for the year ended December 31, 2021 primarily due to an increase of $18.6 million, or 8.6%, increase in the average balance of the loan portfolio from $216.2 million for the year ended December 31, 2021 to $234.8 million for the year ended December 31, 2022, partially offset by a decrease of 14 basis points, or 3.1%, in the average yield on loans from 4.43% for the year ended December 31, 2021 to 4.29% for the year ended December 31, 2022. The decreased yield on loans is primarily due to decreased loan fees and a full 12 months of interest on lower rate mortgage loans for the year ended December 31, 2022 that were originated in 2021.

Interest on Federal Home Loan Bank and Texas Independent Bank (TIB) stock increased $16,000, or 72.7%, from $22,000 for the year ended December 31, 2021 to $38,000 for the year ended December 31, 2022. This increase resulted primarily from an increase in yield of 72 basis points, or 66.6%, from 1.08% for the year ended December 31, 2021 to 1.81% for the year ended December 31, 2022 and an increase in average balance of $75,000, or 3.7%, from $2.0 million for the year ended December 31, 2021 to $2.1 million for the year ended December 31, 2022.

Interest bearing deposits in banks and cash and cash equivalents experienced an interest rate increase from December 31, 2021 to December 31, 2022 due to overall market interest rate increases. Interest income from interest bearing deposits in banks decreased $17,000 or 30.4%, from $56,000 for the year ended December 31, 2021 to $39,000 for the year ended December 31, 2022. This decline resulted from a decrease in average balance of $14.2 million, or 76.0%, from $18.7 million for the year ended December 31, 2021 to $4.5 million for the year ended December 31, 2022, partially offset by a 57 basis point, or 190.7%, increase in average yield from 0.30% for the year ended December 31, 2021 to 0.87% for the year ended December 31, 2022.

Fed funds interest increased $75,000, or 312.5%, to $99,000 at December 31, 2022 from $24,000 at December 31, 2021. There was an increase of 81 basis points, or 744.0%, in average yield on fed funds from 0.11% for the year ended December 31, 2021 to 0.92% for the year ended December 31, 2022, which was offset by a $11.3 million, or 51.1%, decrease in average balance from $22.1 million for the year ended December 31, 2021 to $10.8 million for the year ended December 31, 2022.

Interest Expense. Interest expense increased $167,000, or 7.9%, to $2.3 million for the year ended December 31, 2022 from $2.1 million for the year ended December 31, 2021 due primarily to an increase in the average balance of interest-bearing liabilities of $18.3 million, or 7.2%, from $253.7 million for the year ended December 31, 2021 to $272.0 million for the year ended December 31, 2022.

Interest expense on deposit accounts increased $6,000, or 0.4%, for the year ended December 31, 2022, due primarily to an increase in average deposit account balances of $14.4 million, or 6.4%, from $224.3 million for the year ended December 31, 2021 to $238.7 million for the year ended December 31, 2022. This was partially offset by a decrease in average yield of four basis points, or 5.7%, from 0.66% for the year ended December 31, 2021 to 0.63% for the year ended December 31, 2022. The decrease in yield is primarily due to lower deposit costs during the first three quarters of the year.

Interest expense on Federal Home Loan Bank (FHLB) advances increased $162,000, or 26.3%, to $777,000 for the year ended December 31, 2022 from $615,000 for the year ended December 31, 2021, primarily due to the increase in average balances of FHLB advances of $3.7 million, or 12.7%, to $32.8 million for the year ended December 31, 2022 from $29.1 million for the year ended December 31, 2021 and an increase in average yield of 25 basis points, or 11.9%, from 2.12% for the year ended December 31, 2021 to 2.37% for the year ended December 31, 2022.

Net Interest Income. Net interest income increased $1.9 million, or 22.6%, to $10.3 million for the year ended December 31, 2022 from $8.4 million for the year ended December 31, 2021, primarily due to an increase of $19.9 million, or 31.4%, in average balance of net interest earning assets from $63.3 million for the year ended December 31, 2021 to $83.2 million for the year ended December 31, 2022. The net interest rate spread increased 21 basis points, or 8.4%, from 2.49% for the year ended December 31, 2021 to 2.70% for the year ended December 31, 2022. Net interest margin increased 24 basis points, or 9.0%, to 2.89% for the year ended December 31, 2022 from 2.66% for the year ended December 31, 2021.

Provision for Loan and Lease Losses. Based on management's analysis of the adequacy of the allowance for loan and lease losses, the provision for loan and lease losses increased $158,000, or 316.0%, from $50,000 for the year ended December 31, 2021 to $208,000 for the year ended December 31, 2022. The allowance for loan and lease losses was $1.8 million at December 31, 2022 compared to $1.6 million at December 31, 2021. The increase in the provision was primarily due to an increase in net loans and leases of $31.0 million, or 14.1%, and an increase in net loan chargeoffs of $9,000 to a total of $16,000 for the year ended December 31, 2022 and an increase in losses related to overdrawn deposit accounts of $15,000 to a total of $30,000 for the year ended December 31, 2022. The loan portfolio was also diversified during the year ended December 31, 2022 with increases in loan types requiring a slightly higher allowance.

Noninterest Income. Noninterest income increased $151,000, or 8.8%, to $1.9 million for the year ended December 31, 2022 from $1.7 million for the year ended December 31, 2021, primarily the result of increased service charges on deposits of $88,000, or 15.2%, from $578,000 for the year ended December 31, 2021 to $666,000 for the year ended December 31, 2022 primarily resulting from increases in nonsufficient funds and overdraft fees resulting primarily from increases in the number of checking accounts. Other service charges and fees increased by $44,000 primarily from an increase of $12,000 in ATM fees and $15,000 in loan fees generated through secondary market wholesale lending. There were a three items exclusive to the year ended December 31, 2022 including a gain of $42,000 on the sale of bank property classified as foreclosed assets and a $6,000 gain on the sale of a fixed asset, partially offset by a $29,000 loss on securities sold in 2022.

Noninterest Expense. Noninterest expense increased $292,000, or 3.1%, to $9.8 million for the year ended December 31, 2022 from $9.5 million for the year ended December 31, 2021 primarily due to the increase in salary and employee benefits, data processing, and director fees, partially offset by decreases in contract services and other expenses.

Salary and employee benefit expenses increased by $652,000, or 12.7%, totaling $5.8 million for the year ended December 31, 2022 and $5.1 million for the year ended December 31, 2021, due primarily to an increase in wages of $487,000 for the year ended December 31, 2022 from $4.0 million to $4.5 million and additional compensation expense of $84,000 for the year ended December 31, 2022 related to equity compensation awards. Directors' fees increased $77,000, or 25.2%, from $306,000 for the year ended December 31, 2021 to $383,000 for the year ended December 31, 2022 due to the addition of four new directors and two new advisory directors. Data (core) processing expense increased by $404,000, or 48.5%, to $1.2 million for the year ended December 31, 2022 from $833,000 for the year ended December 31, 2021 primarily due to increases in the number of accounts and a price increase levied by our core processor. Contract services and other expenses combined decreased $885,000, or 35.9%, from $2.5 million for the year ended December 31, 2021 to $1.6 million for the year ended December 31, 2022. This decrease in expenses was primarily due to increased expenses for the year ended December 31, 2021 related to our initial public offering.

Income Tax Expense. Income tax expense increased by $330,000, or 354.8%, to $423,000 for the year ended December 31, 2022 from $93,000 for the year ended December 31, 2021 due primarily to the increase in taxable income. The effective tax rate was 19.43% and 15.22% for the years ended December 31, 2022 and 2021, respectively. The increase in the effective tax rate was primarily due to taxable income increasing at a faster rate than nontaxable income.

Management of Market Risk

General. Our most significant form of market risk is interest rate risk because, 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, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our board of directors. We currently utilize a third-party modeling program, prepared on a monthly basis, to evaluate our sensitivity to changing interest rates, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors.

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

- maintaining capital levels that exceed the thresholds for well-capitalized status under federal regulations;
- maintaining a high level of liquidity;
- growing our volume of core deposit accounts;
- managing our investment securities portfolio so as to reduce the average maturity and effective life of the portfolio;
- continuing to diversify our investment securities portfolio by continuing to add collateralized mortgage obligations (CMOs) and subordinated debt;
- managing our borrowings from the Federal Home Loan Bank of Dallas by using amortizing advances to reduce the average maturities of the borrowings;
- managing our loan services by adding wholesale lending products to continue to offer these services while reducing interest rate risk in the loan portfolio; and
- continuing to diversify our loan portfolio by adding more commercial-related loans, which typically have shorter maturities and/or balloon payments.

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

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

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 200 and 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 net interest income that would result from the designated immediate changes in the United States Treasury yield curve.

At December 31, 2022		
Change in Interest Rates (basis points) [1]	**Net Interest Income Year 1 Forecast**	**Year 1 Change from Level**
	(Dollars in thousands)	
400	$ 13,609	2.83 %
300	13,570	2.53 %
200	13,563	2.48 %
100	13,431	1.49 %
Level	13,234	—
(100)	12,804	(3.25)%
(200)	12,196	(7.85)%
(300)	11,453	(13.46)%
(400)	10,646	(19.56)%

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

The table above indicates that at December 31, 2022, in the event of an instantaneous parallel 200 basis point increase in interest rates, we would experience a 2.48% increase in net interest income, and in the event of an instantaneous 200 basis point decrease in interest rates, we would experience a 7.85% decrease in net interest income.

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

The tables below set 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 December 31, 2022					
				EVE as a Percentage of Present Value of Assets (3)	
Change in Interest Rates (basis points) (1)	Estimated EVE (2)	Estimated Increase (Decrease) in EVE Amount	Percent	EVE Ratio (4)	Increase (Decrease) (basis points)
	(Dollars in thousands)				
400	$ 66,634	$ (13,066)	(16.39)%	18.14 %	(96)
300	70,203	(9,497)	(11.92)%	18.50 %	(60)
200	73,756	(5,944)	(7.46)%	18.81 %	(29)
100	76,953	(2,747)	(3.45)%	19.01 %	(9)
Level	79,700	—	— %	19.10 %	—
(100)	80,015	315	0.40 %	18.64 %	(46)
(200)	79,538	(162)	(0.20)%	18.04 %	(106)
(300)	78,570	(1,130)	(1.42)%	17.38 %	(172)
(400)	74,637	(5,063)	(6.35)%	16.22 %	(288)

(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 December 31, 2022, in the event of an instantaneous parallel 200 basis point increase in interest rates, we would experience a 7.46% decrease in EVE, and in the event of an instantaneous 200 basis point decrease in interest rates, we would experience a 0.20% 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, increases in market interest rates can decrease the fair values of our loans, mortgage servicing rights, deposits and borrowings.

Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. 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 December 31, 2022, we had outstanding advances of $62.5 million from the Federal Home Loan Bank of Dallas. At December 31, 2022, we had unused borrowing capacity of $73.4 million with the Federal Home Loan Bank of Dallas. In addition, at December 31, 2022, we had a $10.0 million line of credit with Texas Independent Bankers Bank, a $5.0 million line of credit with First Horizon Bank, and an $8.5 million unsecured line of credit with Zions/Amegy Bank. At December 31, 2022, there was no outstanding balance with any of these facilities.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and short-term investments including interest-bearing demand deposits. The levels of these assets depend 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 years ended December 31, 2022 and 2021 included as part of the consolidated financial statements appearing elsewhere in this annual report.

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

Texas Community Bancshares, Inc. is a separate legal entity from Mineola Community Bank and it must provide for its own liquidity to pay any dividends to stockholders and for other corporate purposes. At December 31, 2022, Texas Community Bancshares, Inc. (on an unconsolidated basis) had cash and cash equivalents totaling $13.3 million.

At December 31, 2022, Mineola Community Bank exceeded all of its regulatory capital requirements, and was categorized as well-capitalized at that date. Management is not aware of any conditions or events since the most recent notification of well-capitalized status that would change our category. See Note 19 of the notes to consolidated financial statements.

Off-Balance Sheet Arrangements

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit, unused lines of credit and swap transactions. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At December 31, 2022, we had outstanding commitments to originate loans of $43.3 million. We anticipate that we will have sufficient funds available to meet our current lending commitments. Time deposits that are scheduled to mature in less than one year from December 31, 2022 totaled $49.1 million. Management expects that a substantial portion of these time deposits will be retained. However, if a substantial portion of these time deposits is not retained, we may utilize advances from the Federal Home Loan Bank of Dallas or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

Recent Accounting Pronouncements

For a discussion of the impact of recent accounting pronouncements, see Note 23 of the notes to our consolidated financial statements beginning on page F-1 of this annual report.

Impact of Inflation and Changing Prices

The consolidated financial statements and related data presented in this prospectus have been prepared in accordance with U.S. GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates, generally, have a more significant impact on a financial institution’s performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

The information regarding this Item is contained in Item 7 under the heading “Management of Market Risk.”

ITEM 8. **Financial Statements and Supplementary Data**

Report of Independent Registered Public Accounting Firm (PCAOB ID 686)

Shareholders, Board of Directors and Audit Committee
Texas Community Bancshares, Inc. and Subsidiaries
Mineola, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of Texas Community Bancshares, Inc. and Subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive (loss) income, shareholders' and members' equity, and cash flows for each of the years in the two-year period ended December 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. Federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ **FORVIS**, **LLP**

We have served as the Company's auditor since 2020.

Houston, Texas
March 30, 2023

Texas Community Bancshares, Inc. and Subsidiaries
Consolidated Statements of Financial Condition
December 31, 2022 and 2021
(Amounts in thousands, except for share and per share data)

	2022	2021
Assets		
Cash and due from banks	$ 6,897	$ 5,651
Federal funds sold	2,030	16,264
Cash and cash equivalents	8,927	21,915
Interest bearing deposits in banks	2,055	14,955
Securities available for sale	107,153	56,800
Securities held to maturity (fair values of $24,615 at December 31, 2022 and $33,673 at December 31, 2021)	27,827	33,682
Loans receivable, net of allowance for loan and lease losses of $1,755 at December 31, 2022 and $1,592 at December 31, 2021	251,274	220,162
Net investment in direct financing leases	64	105
Accrued interest receivable	1,327	931
Premises and equipment, net	6,299	6,215
Bank-owned life insurance	6,125	6,020
Foreclosed assets	—	209
Restricted investments carried at cost	2,805	2,037
Core deposit intangible	397	529
Mortgage servicing rights, net	7	8
Deferred income taxes	2,304	651
Other assets	782	607
	$ 417,346	$ 364,826
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest bearing	$ 45,823	$ 40,576
Interest bearing	250,254	234,357
Total deposits	296,077	274,933
Advances from Federal Home Loan Bank (FHLB)	62,494	27,571
Accrued expenses and other liabilities	2,905	2,190
Total liabilities	361,476	304,694
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, 3,296,843 and 3,257,759 shares issued and outstanding at December 31, 2022 and 2021, respectively	33	33
Additional paid in capital	31,099	30,932
Retained earnings	34,083	32,329
Accumulated other comprehensive loss	(6,999)	(686)
Unearned Employee Stock Ownership Program (ESOP) shares, at cost	(2,346)	(2,476)
Total shareholders' equity	55,870	60,132
	$ 417,346	$ 364,826

See Notes to Consolidated Financial Statements

Texas Community Bancshares, Inc. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2022 and 2021
(Amounts in thousands, except for share and per share data)

	2022	2021
Interest Income		
Loans, including fees	$ 10,074	$ 9,575
Debt securities		
Taxable	2,161	741
Non taxable	155	116
Dividends on restricted investments	38	22
Federal funds sold	99	24
Deposits with banks	39	56
Total interest income	12,566	10,534
Interest Expense		
Deposits	1,496	1,490
Advances from FHLB	777	615
Other	10	11
Total interest expense	2,283	2,116
Net Interest Income	10,283	8,418
Provision for Loan and Lease Losses	208	50
Net Interest Income After Provision for Loan and Lease Losses	10,075	8,368
Noninterest Income		
Service charges on deposit accounts	666	578
Other service charges and fees	1,051	1,007
Net gain (loss) on securities transactions	(29)	—
Net gain on sale of foreclosed assets	42	—
Net gain on sale of fixed assets	6	—
Net appreciation on bank-owned life insurance	105	111
Other income	27	21
Total noninterest income	1,868	1,717
Noninterest Expenses		
Salaries and employee benefits	5,798	5,146
Occupancy and equipment expense	769	725
Data processing	1,237	833
Contract services	184	547
Director fees	383	306
Other expense	1,395	1,917
Total noninterest expenses	9,766	9,474
Income Before Income Taxes	2,177	611
Income Tax Expense	423	93
Net Income	$ 1,754	$ 518
Earnings per share - basic	$ 0.58	$ 0.17
Earnings per share - diluted	$ 0.58	$ 0.17
Weighted-average shares outstanding - basic	3,028,214	3,002,129
Weighted-average shares outstanding - diluted	3,028,214	3,002,129

See Notes to Consolidated Financial Statements

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

	2022	2021
Net Income	$ 1,754	$ 518
Other items of comprehensive loss		
Net changes in fair value of available for sale securities, before tax	(8,020)	(1,031)
Reclassification adjustment for realized loss on sale of investment securities included in net income	29	—
Total other items of comprehensive loss, before tax	(7,991)	(1,031)
Income tax benefit related to other items of comprehensive loss	1,678	217
Total other items of comprehensive loss, after tax	(6,313)	(513)
Comprehensive Loss	$ (4,559)	$ (296)

See Notes to Consolidated Financial Statements

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

	Preferred Stock	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned ESOP Shares	Total Shareholders' Equity
Balance at January 1, 2022	$ —	$ 33	$ 30,932	$ 32,329	$ (686)	$ (2,476)	$ 60,132
Net income	—	—	—	1,754	—	—	1,754
Stock based compensation expense	—	—	84	—	—	—	84
Net changes in fair value of available for sale securities, net of tax benefit of $1,678	—	—	—	—	(6,313)	—	(6,313)
ESOP shares earned, 13,031 shares	—	—	83	—	—	130	213
Balance at December 31, 2022	$ —	$ 33	$ 31,099	$ 34,083	$ (6,999)	$ (2,346)	$ 55,870
Balance at January 1, 2021	$ —	$ —	$ —	$ 31,811	$ 128	$ —	$ 31,939
Net income	—	—	—	518	—	—	518
Stock issuance, net of conversion costs of $1,684	—	33	30,860	—	—	—	30,893
Net changes in fair value of available for sale securities, net of tax benefit of $217	—	—	—	—	(814)	—	(814)
Leveraged ESOP shares, 2,606,210 shares	—	—	—	—	—	(2,606)	(2,606)
ESOP shares earned, 13,031 shares	—	—	72	—	—	130	202
Balance at December 31, 2021	$ —	$ 33	$ 30,932	$ 32,329	$ (686)	$ (2,476)	$ 60,132

See Notes to Consolidated Financial Statements

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

	2022	2021
Operating Activities		
Net income	$ 1,754	$ 518
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan and lease losses	208	50
Net amortization of securities	421	443
Depreciation and amortization	431	437
Net realized loss on sales of securities available for sale	29	—
Stock dividends on restricted securities	(28)	—
Loss on sale of fixed assets	(6)	—
Gain on sale of foreclosed assets	(42)	—
Appreciation on bank-owned life insurance	(105)	(111)
ESOP compensation expense for allocated shares	213	202
Stock-based compensation	84	—
Deferred income tax expense (benefit)	25	(188)
Net change in		
Accrued interest receivable	(396)	32
Mortgage servicing rights	1	4
Other assets	(175)	(56)
Accrued expenses and other liabilities	715	426
Net Cash from Operating Activities	3,129	1,757
Investing Activities		
Net change in interest bearing deposits in banks	12,900	(940)
Activity in available for sale securities		
Purchases	(75,293)	(79,395)
Sales	10,821	—
Maturities, prepayments and calls	5,839	34,362
Activity in held to maturity securities		
Purchases	—	(13,839)
Maturities, prepayments and calls	5,694	14,210
Purchases of restricted investments	(740)	(13)
Loan originations and principal collections, net	(31,312)	(6,973)
Net decrease (increase) in net investment in direct financing leases	41	(73)
Proceeds from sales of foreclosed assets	243	—
Proceeds from sales of fixed assets	16	—
Purchases of premises and equipment	(393)	(137)
Net Cash used for Investing Activities	(72,184)	(52,798)
Financing Activities		
Net increase in deposits	21,144	39,793
Advances from FHLB and other borrowings	192,500	—
Payments on long-term FHLB and other borrowings	(157,577)	(3,197)
Proceeds from issuance of common stock net of conversion costs	—	30,893
Loan to ESOP for purchase of common stock	—	(2,606)
Net Cash from Financing Activities	56,067	64,883
Net Change in Cash and Cash Equivalents	(12,988)	13,842
Cash and Cash Equivalents at Beginning of Year	21,915	8,073
Cash and Cash Equivalents at End of Year	$ 8,927	$ 21,915

See Notes to Consolidated Financial Statements

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 to become the holding company for Mineola Community Bank, SSB (the "Bank") upon the conversion of Mineola Community Mutual Holding Company ("MHC") from a mutual holding company to a stock holding company (the "Conversion"). The Conversion was completed on July 14, 2021. The Company's shares began trading on the NASDAQ under the symbol TCBS on July 15, 2021. In connection with the Conversion, the Company acquired 100% ownership of the Bank and the Company offered and sold 3,207,759 shares of its common stock at $10.00 per share, for gross offering proceeds of $32,078. The cost of the Conversion and issuance of common stock was approximately $1,684, which was deducted from the gross offering proceeds. The Company also contributed 50,000 shares of its common stock and $75 of cash to Texas Community Bancshares Foundation, Inc. (the "Foundation"), a charitable foundation formed in connection with the Conversion. The Bank's ESOP purchased 260,621 shares of the common stock sold by the Company, which was 8% of the 3,257,759 shares of common stock issued by the Company, including the shares contributed to the Foundation. The ESOP purchased the shares using a loan from the Company. The Company contributed $15,276 of the net proceeds from the offering to the Bank, loaned $2,606 of the net proceeds to the ESOP, contributed $75 to the Foundation and retained approximately $12,436 of the net proceeds.

Following the Conversion, voting rights in the Company are held and exercised exclusively by the shareholders of the Company. Deposit account holders continue to be insured by the FDIC. In connection with the Conversion, liquidation accounts were established by the Company and the Bank in an aggregate amount equal to (i) the MHC's ownership interest in the shareholders' equity of Mineola Community Financial Group, Inc. (the former subsidiary holding company of the Bank) as of the date of the latest statement of financial condition included in the Company's definitive prospectus dated May 14, 2021, plus (ii) the value of the net assets of the MHC as of the date of the MHC's latest statement of financial condition before the consummation of the Conversion (excluding the MHC's ownership interest in Mineola Community Financial Group, Inc.). Each eligible account holder and supplemental eligible account holder is entitled to a proportionate share of the liquidation accounts in the event of a liquidation of (i) the Company and the Bank or (ii) the Bank, and only in such events. This share will be reduced if the eligible account holder's or supplemental account holder's deposit balance falls below the amounts on the date of record and will cease to exist if the account is closed. The liquidation account will never be increased despite any increase after the Conversion in the related deposit balance. The Bank may not pay a dividend on its capital stock if the effect thereof would cause retained earnings to be reduced below the liquidation account amount or regulatory capital requirements. In addition, the Company is subject to certain regulations related to the payment of dividends and the repurchase of its capital stock. The Conversion was accounted for as a change in corporate form with the historic basis of the Bank's assets, liabilities and equity unchanged as a result.

The Bank'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:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, which include Mineola Community Bank, S.S.B. 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 generally accepted accounting principles in the United States of America, 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 loan and lease losses.

Significant Group Concentration of Credit Risk

Most of the Company's activities are with customers located within the Wood, Smith, and Van Zandt County areas and the Dallas Fort Worth Metroplex. Note 3 discusses the types of securities in which the Company invests. Note 4 discusses the types of lending in which the Company engages. Approximately 95% of the loan balance at December 31, 2022 and 2021, is secured by real estate. The Company does not have any other significant concentrations to any one industry or customer.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks and federal funds sold, all of which mature within ninety days.

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. As of December 31, 2022 and 2021, the Company was not required to maintain any amounts in excess of required reserves.

Balances in transaction accounts at other financial institutions may exceed amounts covered by federal deposit insurance. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents. At December 31, 2022 and 2021, the Company had $1,750 and $13,655, respectively, that exceeded amounts covered by federal deposit insurance.

Interest Bearing Deposits in Banks

Interest bearing deposits in banks are carried at cost.

Debt Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Debt securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive loss.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary, if any, are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (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) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investments in other restricted stock are carried at cost. Any changes to the cost basis of these investments are recorded in the statements of income. These investments are reviewed annually to determine if an impairment charge is necessary.

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 and 2021, no impairment charges were recorded for any debt security.

Federal Home Loan Bank Stock

The Company's investment in Federal Home Loan Bank stock is a restricted investment carried at cost ($100 per share par value), which approximates its fair value. As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding FHLB advances. The Company may request redemption at par value of any stock in excess of the amount it is required to hold. Stock redemptions are made at the discretion of FHLB. Due to requirements for additional advances for the year ended December 31, 2022 there were purchases and dividend reinvestments of $583 and $28, respectively. For the year ended December 31, 2021, there were purchases of $13 due to requirements for additional advances. There were no sales during 2022 or 2021. Additionally, the Company periodically evaluates FHLB stock for impairment. As of December 31, 2022 or 2021, no impairment charges were recorded.

Loans and Leases

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans secured by real estate throughout the Wood, Smith, and Van Zandt Counties and the Dallas Fort Worth Metroplex area. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off which are measured at historical cost are generally reported at their outstanding unpaid principal balances net of any unearned income, charge-offs, and unamortized deferred fees and costs on originated loans. Interest income is accrued on the unpaid principal balance. The deferral of all loan origination fees and origination costs is quantified annually. In 2022 and 2021, management determined the deferral of these fees and costs to be immaterial to the consolidated financial statements. Unearned income is amortized to interest income using a level yield methodology.

The Company makes disclosures of loans and other financing receivables and the related allowance in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 310, Receivables. The accounting guidance defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses, and a class of financing receivables as the level of disaggregation of portfolio segments based on the initial measurement attributes, risk characteristics and methods for assessing risk. The Company's portfolio segments are real estate, agriculture, commercial, and consumer and other. The classes of financing receivables within the real estate segment are Construction and Land, Farmland, 1-4 Residential and

Multifamily, and Commercial Real Estate. The remaining portfolio segments contain a single class of financing receivables. Under this accounting guidance, the allowance is presented by portfolio segment.

Allowance for Loan and Lease Losses

The allowance for credit losses, which includes the allowance for loan and lease losses and the reserve for unfunded lending commitments, represents management's estimate of probable losses inherent in the Company's lending activities. The allowance for loan and lease losses does not include amounts related to the accrued interest receivable as any accrued interest receivable is reversed when a loan is placed on nonaccrual status.

The allowance for loan and lease losses represents the estimated probable credit losses in funded consumer and commercial loans while the reserve for unfunded lending commitments, including standby letters of credit and binding unfunded loan commitments, represents estimated probable credit losses on these unfunded credit instruments based on utilization assumptions. Credit exposures deemed to be uncollectible are charged against these accounts. Cash recovered on previously charged off amounts is recorded as a recovery to these accounts.

Management evaluates the adequacy of the allowance for credit losses based on the combined total of these two components. The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and assess the overall collectability of those portfolios. The allowance on certain homogenous loan portfolios is based on aggregated portfolio segment evaluations. Loss models are utilized for these portfolios which consider a variety of factors including, but not limited to, historical loss experience, estimated defaults or foreclosures based on portfolio trends, delinquencies, bankruptcies, economic conditions and credit scores.

The Company's real estate portfolio segment is comprised primarily of homogenous loans secured by residential and commercial real estate. The amount of losses incurred in the homogenous loan pools is estimated based upon how many of the loans will default and the loss in the event of default. Using modeling methodologies, the Company estimates how many of the homogenous loans will default based on the individual loans' attributes aggregated into pools of homogenous loans with similar attributes. The attributes that are most significant to the probability of default and are used to estimate default include the loan-to-value, borrower credit score, months since origination, geography, and present collection status. The estimate is based on the Company's historical experience with the loan portfolio. The estimate is adjusted to reflect an assessment of environmental factors that are not reflected in the historical data, such as changes in real estate values, local and national economies, underwriting standards and the regulatory environment.

The allowance on the remaining portfolio segments (agriculture, commercial, and consumer) is calculated using loss rates delineated by risk rating and product type. Factors considered when assessing loss rates include the value of the underlying collateral, the industry of the obligor, the obligor's liquidity and other financial and qualitative factors. These statistical models are updated regularly for changes in economic and business conditions. Included in the analysis of these loan portfolios are reserves which are maintained to cover uncertainties that affect the Company's estimate of probable losses including economic uncertainty and large single defaults.

Nonperforming loans are reviewed in accordance with applicable accounting guidance on impaired loans and troubled debt restructurings (TDRs). If necessary, a specific allowance is established for these loans if they are deemed to be impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of delay, the reason for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are subject of a restructuring agreement.

In addition to the allowance for loan and lease losses, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, utilization assumptions, current economic conditions, performance trends within the portfolio and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments.

The allowance for loan and lease losses related to the loan portfolio is reported as a part of loans in the consolidated statements of condition whereas the reserve for unfunded lending commitments is reported on the consolidated statements of condition in accrued expenses and other liabilities. Provisions for credit losses related to the loan portfolio and unfunded lending commitments is reported separately in the consolidated statements of income.

Nonperforming Loans, Charge-Offs and Delinquencies

Nonperforming loans generally include loans that have been placed on nonaccrual status including nonaccrual loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties.

The entire balance of a loan is contractually delinquent if the minimum payment is not received by the specified due date on the customer's billing statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

The outstanding balance of real estate secured loans, including all classes of financing receivables within the real estate portfolio segment, that is in excess of the estimated property value, less estimated costs to sell, is generally charged off no later than the end of the month in which the account becomes 180 days past due. The estimated property value, less estimated costs to sell, is determined utilizing appraisals or broker price opinions of the fair value of the collateral.

The outstanding balance of loans within the remaining loan segments (agriculture, commercial, and consumer) are generally charged off no later than the end of the month in which the account becomes 120 days past due. For secured loans, accounts are written down to the collateral value.

The fair value of the collateral is estimated by management based on current financial information, inspections, and appraisals. For unsecured loans, the outstanding balance is written off.

Loans within all portfolio segments are generally placed on nonaccrual status and classified as nonperforming at 90 days past due. Accrued interest receivable is reversed when a loan is placed on nonaccrual status. Interest collections on non-accruing loans for which the ultimate collectability of principal is uncertain are applied as principal reductions; otherwise, such collections are credited to interest income when received. These loans may be restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection.

Loans whose contractual terms have been modified in a TDR and are current at the time of the restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and repayment in full under the restructured terms is expected. Otherwise, the loans are placed on nonaccrual status and reported as nonperforming until there is sustained repayment performance for a reasonable period, generally six months. TDRs that are on accrual status are reported as performing TDRs through the end of the calendar year in which the restructuring occurred or the year in which the loans are returned to accrual status. In addition, if accruing TDRs bear less than a market rate of interest at the time of modification, they are reported as performing TDRs throughout the remaining lives of the loans.

The allowance for loan and lease losses is established as losses are estimated to have occurred through a provision for loan and lease losses charged to earnings. Loan and lease losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

Troubled Debt Restructured Loans

A TDR loan is a loan which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms which have been modified or restructured due to a borrower's financial difficulty include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals and rewrites. A TDR loan would generally be considered impaired.

Wholesale Lending

The Company has entered into a wholesale lending agreement with a wholesale lender and correspondent bank, TIB. The Company originates the loan and interacts with the customer while the wholesale lender underwrites, funds, closes and services the loan. The Company receives a fee from the wholesale lender at closing for the services provided which is included in noninterest income.

Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Derivative Loan Commitments

Mortgage loan commitments that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance (FASB ASC 815, Derivatives and Hedging). Loan commitments that are derivatives are recognized at fair value on the consolidated statements of condition in other assets and other liabilities with changes in their fair values recorded in noninterest income.

Forward Loan Sale Commitments

The Company evaluates all loan sales agreements to determine whether they meet the definition of a derivative under FASB ASC 815 as facts and circumstances may differ significantly. If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Company uses "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Accordingly, forward loan sale commitments are recognized at fair value on the consolidated statements of condition in other assets and liabilities with changes in their fair values recorded in other noninterest income.

The Company estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Cash Surrender Value of Bank-owned Life Insurance

Life insurance policies are initially recorded at cost at the date of purchase. Subsequent to purchase, the policies are periodically adjusted for changes in cash surrender value. The adjustment to cash surrender value increases or decreases the carrying value of the policies and is recorded as income or expense on the consolidated statements of income.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated costs to sell at the date of foreclosure. All write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or estimated fair value less costs to sell.

Impairment losses on property to be held and used are measured at the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs related to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of the property to the lower of its cost or fair value less costs to sell.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 7 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line or accelerated method with useful lives ranging from 3 to 20 years.

Leases

Leases are classified as operating or finance leases at the lease commencement date. The Company leases certain locations and equipment. The Company records leases on the statements of financial condition in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal. The Company does not record leases on the consolidated statements of financial condition that are classified as short term (less than one year).

At lease inception, the Company determines the lease term by considering the minimum lease term and all optional renewal periods that the Company is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Company’s leases do not contain residual value guarantees or material variable lease payments that will impact the Company's ability to pay dividends or cause the Company to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in occupancy and equipment expense on the Company's consolidated statements of income.

The Company has elected to treat property leases that include both lease and non-lease components as a single component and account for it as a lease.

Mortgage Servicing Rights

Mortgage servicing rights are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Mortgage servicing rights are capitalized and amortized into income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined by using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Intangible Assets

Intangible assets with a finite life consist of a core deposit intangible and is are carried at cost less accumulated amortization. The Company amortizes the cost of the identifiable intangible asset on a straight-line basis over the expected period of benefit, which is seven years.

Income Taxes

The Company's income tax expense consists of the following components: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rate and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not some portion or all of a deferred tax asset will not be realized. The Company recognizes interest accrued on and penalties related to unrecognized tax benefits in tax expense.

During the years ended December 31, 2022 and 2021, the Company recognized no interest and penalties. Based on management's analysis, the Company did not have any uncertain tax positions at December 31, 2022 and 2021.

The Company files income tax returns in the U.S. federal jurisdiction and the State of Texas.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2022 and 2021 amounted to $50 and $46, respectively.

Revenue Policies

FASB ASC Topic 606, Revenue from Contracts with Customers (Topic 606), (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as foreclosed assets. The majority of the Company's revenues come from interest income and other sources, including loans, leases, and securities, that are outside the scope of Topic 606. The Company's services that fall within the scope of Topic 606 are presented within Non-Interest Income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of Topic 606 include service charges on deposits, interchange income, and the sale of foreclosed assets.

A description of the Company's revenue streams accounted for under Topic 606 follows:

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account-maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which related primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Income: The Company earns interchange fees from debit/credit cardholder transactions conducted through the Visa/MasterCard/Other payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Gains (Losses) on Sales of Foreclosed Assets: The Company records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of a foreclosed asset to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Comprehensive Loss

Comprehensive loss consists of net income and other comprehensive loss. Other comprehensive loss includes unrealized gains and losses on securities available-for-sale.

Stock Incentive Plan

Compensation cost is recognized for stock options and restricted stock awards issued to directors, based on the fair value of these awards at the date of the grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of the grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Subsequent Events

Management has evaluated subsequent events through March 30, 2023, which was the date the accompanying consolidated financial statements were issued.

On January 2, 2023, the Company purchased two buildings adjacent to the bank for $550.

On February 22, 2023, the Board of Directors of the Company approved the issuance of a first quarter dividend of $0.02 per share on outstanding common stock to stockholders of record as of the close of business on March 10, 2023 and payable on March 24, 2023.

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

On February 28, 2023, the Company issued stock-based compensation to certain members of management for a total of 76,880 stock award shares and 192,204 stock options.

Note 2 - Earnings Per Share

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

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

	Year Ended December 31,	
	2022	2021
Net Income	$ 1,754	$ 518
Weighted average shares outstanding for basic earnings per share:		
Average shares outstanding	3,270,823	3,257,759
Less: average unearned ESOP shares	(242,609)	(255,630)
Weighted average shares outstanding for basic earnings per share	3,028,214	3,002,129
Additional dilutive shares	—	—
Weighted average shares outstanding for dilutive earnings per share	3,028,214	3,002,129
Basic and dilutive earnings per share	$ 0.58	$ 0.17

Restricted stock awards for 39,084 shares of common stock were not considered in computing diluted earnings per share for 2022, because they were antidilutive. Stock options for 97,728 shares of common stock were not considered in computing diluted earnings per share for 2022, because they were nonvested.

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

Note 3 - Debt Securities

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

	December 31, 2022			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt Securities:				
Residential mortgage-backed	$ 25,573	$ —	$ (1,815)	$ 23,758
Collateralized mortgage obligations	52,134	584	(2,474)	50,244
State and municipal	16,387	—	(2,606)	13,781
Corporate bonds	5,750	—	(935)	4,815
U.S. Government and agency	16,169	—	(1,614)	14,555
Total securities available for sale	$ 116,013	$ 584	$ (9,444)	$ 107,153
Held to Maturity				
Debt Securities:				
Residential mortgage-backed	$ 25,817	$ —	$ (3,132)	$ 22,685
State and municipal	2,010	—	(80)	1,930
Total securities held to maturity	$ 27,827	$ —	$ (3,212)	$ 24,615

	December 31, 2021			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt Securities:				
Residential mortgage-backed	$ 19,073	$ 113	$ (401)	$ 18,785
Collateralized mortgage obligations	11,202	—	(126)	11,076
State and municipal	11,670	36	(167)	11,539
Corporate bonds	2,500	—	(94)	2,406
U.S. Government and agency	13,224	—	(230)	12,994
Total securities available for sale	$ 57,669	$ 149	$ (1,018)	$ 56,800
Held to Maturity				
Debt Securities:				
Residential mortgage-backed	$ 31,277	$ 374	$ (392)	$ 31,259
State and municipal	2,405	15	(6)	2,414
Total securities held to maturity	$ 33,682	$ 389	$ (398)	$ 33,673

During the year ended December 31, 2022, the Company had sales of available for sale securities of $10,821 with a loss of $29. During the year ended December 31, 2021, the Bank had no sales of available for sale securities or held to maturity securities.

At December 31, 2022 and 2021, securities with a carrying value of $3,162 and $2,745, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

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

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2022, follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year	$ —	$ —	$ —	$ —
Due from one to five years	15,131	13,775	764	761
Due in five to ten years	16,614	14,082	134	120
After ten years	6,561	5,294	1,112	1,049
Residential mortgage-backed	25,573	23,758	25,817	22,685
Collateralized mortgage obligations	52,134	50,244	—	—
Total	$ 116,013	$ 107,153	$ 27,827	$ 24,615

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:

	December 31, 2022			
	Less than 12 months		12 months or longer	
Category (number of securities)	Fair Value	Gross Unrealized Losses	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)
Total	$ 54,432	$ (4,285)	$ 50,349	$ (8,371)

	December 31, 2021			
	Less than 12 months		12 months or longer	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Residential mortgage-backed (20,5)	$ 22,903	$ (624)	$ 5,666	$ (169)
Collateralized mortgage obligations (5)	11,076	(126)	—	—
State and municipal (9)	8,416	(173)	—	—
Corporate bonds (2)	906	(94)	—	—
U.S. Government and agency (13)	12,994	(230)	—	—
Total	$ 56,295	$ (1,247)	$ 5,666	$ (169)

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 interest rate increases and decreases in prepayment speeds. Interest rates have risen sharply throughout 2022 causing increased unrealized losses on securities. The Company has no plans to sell these securities and will continue to monitor the effect of the unrealized losses on the financial statements. The contractual cash flows of many of these investments are guaranteed by agencies of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in fair value is attributable to changes in market interest rates and decreases in prepayment speeds and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022 or December 31, 2021.

U.S. Government and Agency

The unrealized losses on the Company's investments in U.S. government and agency securities were caused by market interest rate increases. Interest rates have risen sharply throughout 2022 and caused increases in unrealized losses on securities. The Company has no plans to sell these securities and will continue to monitor the effect of the unrealized losses on the financial statements. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in fair value is attributable to changes in market interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022 or December 31, 2021.

Municipal Securities and Corporate Bonds

The unrealized losses on the Company's investments in state and municipal securities and corporate bonds were caused by market interest rate increases. Interest rates have risen sharply throughout 2022 and caused increases in unrealized losses on securities. The Company has no plans to sell these securities and will continue to monitor the effect of the unrealized losses on the financial statements. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in fair value is attributable to changes in market interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the 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 or December 31, 2021.

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 and 2021, no investment securities were other-than-temporarily impaired.

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

Note 4 - Loans and Leases

A summary of the balances of loans and leases follows:

	December 31, 2022	December 31, 2021
Real estate	$ 240,278	$ 209,946
Agriculture	189	234
Commercial	7,031	6,141
Consumer and other	5,595	5,538
Subtotal	253,093	221,859
Less allowance for loan and lease losses	(1,755)	(1,592)
Loans and leases, net	$ 251,338	$ 220,267

The following tables set forth information regarding the activity in the allowance for loan and lease losses for the years ended December 31, 2022 and 2021:

	December 31, 2022				
	Real Estate	Agriculture	Commercial	Consumer and Other	Total
Allowance for loan and lease losses:					
Balance, January 1, 2022	$ 1,178	$ 1	$ 357	$ 56	$ 1,592
Charge-offs	—	—	—	(58)	(58)
Recoveries	—	—	—	13	13
Provision	154	—	2	52	208
Balance, December 31, 2022	$ 1,332	$ 1	$ 359	$ 63	$ 1,755
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
Loans and leases receivable:					
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	$ 240,278	$ 189	$ 7,031	$ 5,595	$ 253,093

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

	December 31, 2021				
	Real Estate	Agriculture	Commercial	Consumer and Other	Total
Allowance for loan and lease losses:					
Balance, January 1, 2021	$ 1,171	$ 2	$ 355	$ 33	$ 1,561
Charge-offs	—	—	—	(36)	(36)
Recoveries	—	—	—	17	17
Provision (credit)	7	(1)	2	42	50
Balance, December 31, 2021	$ 1,178	$ 1	$ 357	$ 56	$ 1,592

	December 31, 2021				
Allowance for loan and lease losses:	Real Estate	Agriculture	Commercial	Consumer and Other	Total
Balance, December 31, 2021 allocated to loans and leases individually evaluated for impairment	$ 8	$ —	$ 300	$ —	$ 308
Balance, December 31, 2021 allocated to loans and leases collectively evaluated for impairment	$ 1,170	$ 1	$ 57	$ 56	$ 1,284
Loans and leases receivable:					
Balance, December 31, 2021 loans and leases individually evaluated for impairment	$ 2,437	$ —	$ 474	$ 33	$ 2,944
Balance, December 31, 2021 loans and leases collectively evaluated for impairment	207,509	234	5,667	5,505	218,915
Balance, December 31, 2021	$ 209,946	$ 234	$ 6,141	$ 5,538	$ 221,859

Internal Risk Categories

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.

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

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.

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

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

The Company evaluates the loan risk grading system definitions and allowance for loan and lease loss methodology on an ongoing basis. No significant changes were made during the years ended December 31, 2022 or 2021.

The following table sets forth information regarding the internal classification of the loan and lease portfolio:

	December 31, 2022					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
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

	December 31, 2021					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate						
Construction and land	$ 17,560	$ —	$ 90	$ —	$ —	$ 17,650
Farmland	6,083	—	359	—	—	6,442
1-4 Residential & multi-family	151,708	556	1,904	—	—	154,168
Commercial real estate	30,418	—	1,268	—	—	31,686
Agriculture	234	—	—	—	—	234

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

Commercial	5,652	—	52	437	—	6,141
Consumer and other	5,478	12	48	—	—	5,538
Total	$ 217,133	$ 568	$ 3,721	$ 437	$ —	$ 221,859

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

	December 31, 2022			December 31, 2021		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Real estate						
Construction and land	$ 36,257	$ —	$ 36,257	$ 17,650	$ —	$ 17,650
Farmland	7,393	165	7,558	6,250	192	6,442
1-4 Residential & multi-family	162,237	548	162,785	153,400	768	154,168
Commercial real estate	33,608	70	33,678	31,563	123	31,686
Agriculture	189	—	189	234	—	234
Commercial	6,633	398	7,031	5,667	474	6,141
Consumer and other	5,595	—	5,595	5,505	33	5,538
Total	$ 251,912	$ 1,181	$ 253,093	$ 220,269	$ 1,590	$ 221,859

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

The following table sets forth information regarding the delinquencies not on nonaccrual within the loan and lease portfolio:

	December 31, 2022					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 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

	December 31, 2021					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
Real estate						
Construction and land	$ 1,620	$ —	$ 1,620	$ 16,030	$ 17,650	$ —
Farmland	—	—	—	6,442	6,442	—
1-4 Residential & multi-family	305	—	305	153,863	154,168	—
Commercial real estate	—	—	—	31,686	31,686	—
Agriculture	—	—	—	234	234	—
Commercial	30	—	30	6,111	6,141	—
Consumer and other	19	—	19	5,519	5,538	—
Total	$ 1,974	$ —	$ 1,974	$ 219,885	$ 221,859	$ —

The following table sets forth information regarding the nonaccrual status within the loan and lease portfolio as of December 31, 2022 and 2021:

	2022	2021
Real estate		
Construction and land	$ —	$ —
Farmland	165	192
1-4 Residential & multi-family	548	768
Commercial real estate	70	123
Agriculture	—	—
Commercial	398	474
Consumer and other	—	33
Total	$ 1,181	$ 1,590

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

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

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 years ended December 31, 2022 and 2021.

The following table presents interest income recognized on impaired loans for the years ended December 31, 2022 and 2021:

	2022	2021
Real estate		
1-4 Residential & multi-family	$ 8	$ 13
Commercial real estate	13	64
Commercial	2	20
	$ 23	$ 97

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
	$ 1,476	$ 1,626	$ 300	$ 2,212

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

The following table sets forth information regarding impaired loans as of December 31, 2021:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance				
Real estate				
Farmland	$ 192	$ 240	$ —	$ 96
1-4 Residential & multi-family	977	1,027	—	488
Commercial real estate	123	125	—	62
Commercial	37	42	—	19
Consumer and other	33	33	—	17
With a related allowance				
Real estate				
Commercial real estate	1,145	1,145	8	573
Commercial	437	442	300	219
Total				
Real estate				
Farmland	192	240	—	96
1-4 Residential & multi-family	977	1,027	—	488
Commercial real estate	1,268	1,270	8	635
Commercial	474	484	300	238
Consumer and other	33	33	—	17
	$ 2,944	$ 3,054	$ 308	$ 1,474

There were no troubled debt restructurings that occurred during the year ended December 31, 2022.

During the year ended December 31, 2021, there were two modifications resulting in troubled debt restructurings of approximately $83. The first loan is a single-family residence with an outstanding balance of approximately $69 as of December 31, 2021, and a second loan in commercial and industrial with an outstanding balance of approximately $14 as of December 31, 2021.

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

At December 31, 2022 and 2021, the Company had a recorded investment of $364 and $493, respectively, of troubled debt restructured loans. The Company has no current commitments to loan additional funds to the borrowers whose loans have been modified.

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

Note 5 - Net Investment in Direct Financing Leases

The Company has entered into an equipment lease with a local municipal entity. The lease is classified as a direct financing lease. The terms of the lease provide for automatic annual renewal periods unless the lessee gives written notice, not less than ninety days prior to the end of the original term or any renewal term, of their intention to terminate. The components of the net investment in direct financing leases are summarized as follows:

	December 31, 2022	December 31, 2021
Total minimum lease payments to be received	$ 70	$ 115
Less interest income	(6)	(10)
Net investment in direct financing lease	$ 64	$ 105

At December 31, 2022, the scheduled financing lease payments are as follows:

2023	$ 31
2024	13
2025	13
2026	13
	$ 70

Note 6 - Loan Servicing

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of these loans are summarized as follows:

	December 31, 2022	December 31, 2021
Mortgage loan portfolio serviced for FHLMC	$ 1,025	$ 1,148

Note 7 - Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	December 31, 2022	December 31, 2021
Land	$ 1,351	$ 1,175
Buildings and improvements	7,933	7,745
Furniture, fixtures and equipment	2,610	2,591
	11,894	11,511
Accumulated depreciation	(5,595)	(5,296)
Total	$ 6,299	$ 6,215

Depreciation expense for the years ended December 31, 2022 and 2021, amounted to $299 and $305, respectively.

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

Note 8 - Leases

The Company leases certain office facilities and equipment for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2029 and provide for renewal options ranging from 1 year to 10 years. The Company included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Also, the agreements generally require the Company to pay real estate taxes, insurance, and repairs.

The weighted-average discount rate is based on the discount rate implicit in the lease, or if the implicit rate is not readily determinable from the lease, then the Company estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Company's applicable borrowing rates and the contractual lease term.

Total right-of-use assets and lease liabilities at December 31, 2022 and 2021 were as follows:

	Statement of Financial Condition Classification	December 31, 2022	December 31, 2021
Right-of-use assets:			
Operating leases	Other assets	$ 416	$ 472
Lease Liabilities:			
Operating lease liabilities	Accrued expenses and other liabilities	$ 416	$ 472

Total lease costs for the years ended December 31, 2022 and 2021 were as follows:

	December 31, 2022	December 31, 2021
Operating lease cost	$ 72	$ 72

The future minimum lease payments under noncancelable operating leases with terms greater than one year at December 31, 2022 are as follows:

	Operating Leases
2023	$ 70
2024	71
2025	75
2026	72
2027	60
Thereafter	106
Total undiscounted lease payments	454
Less: imputed interest	(38)
Net lease liabilities	$ 416

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

Supplement Lease Information

	December 31, 2022	December 31, 2021
Weighted-average remaining lease term		
Operating leases	6.35 Years	7.32 Years
Weighted-average discount rate		
Operating leases	2.60 %	2.79 %
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 72	$ 70

Note 9 - Deposits

The aggregate amount of time deposits meeting or exceeding FDIC limits of $250,000 or more at December 31, 2022 and 2021, was $5,394 and $13,388, respectively. Deposits include $12,000 of callable brokered deposits issued as part of an investment strategy that are fully insured with $6,000 maturing in 2025 and $6,000 maturing in 2027. At December 31, 2022, the scheduled maturities of time deposits are as follows:

2023	$ 49,120
2024	18,621
2025	14,269
2026	640
2027	6,768
Total	$ 89,418

Note 10 - Advances from Federal Home Loan Bank

The Company had outstanding advances from Federal Home Loan Bank totaling $62,494 and $27,751 at December 31, 2022 and 2021, respectively. Such advances had a weighted average interest rate of 3.40% and 2.12% at December 31, 2022 and 2021, respectively. Scheduled maturities of the advances, which are subject to restrictions or penalties in the event of prepayment at December 31, 2022 are as follows:

2023	$ 14,691
2024	16,433
2025	5,507
2026	23,000
2027	2,241
Thereafter	622
Total	$ 62,494

Under these agreements, the Company had unused lines of credit amounting to $73,437 at December 31, 2022. Pursuant to a blanket collateral agreement with the FHLB, advances were secured by all stock and deposit accounts with the

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

FHLB, mortgage collateral, securities collateral, and other collateral. At December 31, 2022, $4,528 of securities were specifically pledged. No securities were specifically pledged as of December 31, 2021.

Note 11 - Income Taxes

Allocation of income taxes between current and deferred portions is as follows:

	Years ended December 31, 2022	Years ended December 31, 2021
Current federal income tax expense	$ 398	$ 281
Deferred federal income tax expense (benefit)	7	(207)
Deferred state income tax expense	18	19
Total provision	$ 423	$ 93

Income tax expense, as a percentage of pretax earnings, differs from the statutory federal income tax rate at December 31, 2022 and 2021, is as follows:

	2022	2021
Income tax expense at the statutory rate	21.00 %	21.00 %
State income taxes	0.81	3.05
Nontaxable earnings	(2.77)	(8.85)
Nondeductible expenses	0.41	0.62
Other	(0.04)	(0.60)
Total provision	19.41 %	15.22 %

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

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

	December 31, 2022	December 31, 2021
Deferred tax assets		
Allowance for loan and lease losses	$ 368	$ 334
Organizational costs	—	2
Intangible assets	59	44
Deferred compensation	191	154
State income tax credit	62	76
Stock options and awards	18	—
Charitable contribution credit	73	113
Unrealized loss on securities available for sale	1,860	182
	2,631	905
Deferred tax liabilities		
Depreciable assets	(116)	(135)
Accrual to cash	(166)	(78)
Mortgage servicing rights	(1)	(2)
Other	(44)	(39)
	(327)	(254)
Net deferred tax asset	$ 2,304	$ 651

No valuation allowance for deferred tax assets was recorded as of December 31, 2022 and 2021, as management believes the amounts representing future deferred tax benefits will more likely than not be recognized since the Company is expected to have sufficient taxable income of an appropriate character within the carryback and carryforward periods as permitted by the tax law to allow for utilization of the future deductible amounts.

Retained earnings at December 31, 2022 and 2021, includes $2,663, for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was $559 at December 31, 2022 and 2021.

Note 12 - 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.

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

At December 31, 2022 and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2022	2021
Commitments to extend credit	$ 43,327	$ 27,374

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 Company is party to an agreement with the Federal Reserve Bank of Boston that provides the Company with a federal funds line of credit in an amount tied to securities on deposit with that bank. The Company pays no fees for this line of credit and has not drawn upon it. The Company is party to agreements with its correspondent banks that provide the Company with up to $23,500 federal funds lines of credit to support overnight funding needs. The Company pays no fees for the lines of credit and has not drawn upon them. One line renews annually and the other lines are in effect until either party changes the terms of the agreement.

At December 31, 2022, 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 statements of financial condition.

Note 13 - Legal Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

Note 14 - Employee Benefit Plan

The Company sponsors a defined contribution 401(k) retirement plan covering substantially all of its employees. The plan provides for the Company to match employees' contributions up to five percent of an employee's annual salary. In addition, the Company offers a profit-sharing component to the 401(k) plan under which the Company may contribute an equal amount to the account of each employee. The amount of the profit-sharing contribution is discretionary and determined annually by the board of directors. The employees are 100% vested after six years of service. Prior to full vesting, the employees are vested from 20% to 80% depending on the length of service. The Company's contributions for the years ended December 31, 2022 and 2021, were $182 and $165, respectively.

The Company has a deferred compensation plan with a member of its board of directors that permits that director to defer a portion of his compensation and earn a guaranteed interest rate on the deferred amounts. The portion of the director's compensation that is deferred has been accrued and the only other expense related to this plan is the interest on the deferred amounts. Interest expense during the years ended December 31, 2022 and 2021, included $10 and $11, respectively, related to this plan. The Company has included $184 and $192 of deferred compensation payable at December 31, 2022 and 2021, respectively, which is included in accrued expenses and other liabilities.

To fund this plan, the Company has purchased a corporate-owned whole-life insurance contract on the director. The Company has included $121 and $116 in bank-owned life insurance at December 31, 2022 and 2021, respectively, which represents the cash surrender value of this policy.

Effective January 1, 2013, the Company adopted a deferred compensation incentive plan for five key employees. During 2022 and 2021, the plan included eight employees. The plan provides for an individually agreed upon percentage of net income for the plan year to be deferred and vested over five years. The deferred compensation will earn interest over the vesting period. The vested benefit is to be paid within 90 days of the end of each plan year. The plan will continue each year unless terminated by the Company prior to the beginning of each plan year. The Company recorded compensation expense related to this program in the amount of $275 and $211 for the years ended December 31, 2022 and 2021, respectively. The remaining amount of bonus to be paid out before interest is $624 and is expected to be fully expensed by the year ending December 31, 2024. An accrual of $596 and $426 for December 31, 2022 and 2021, respectively, is included in accrued expenses and other liabilities.

To partially fund benefit plans, Mineola Community Bank maintains the Mineola Community Bank Split Dollar Life Insurance Plan, which consists of thirteen life insurance policies on ten current, two retired officers and one former officer. The executive has the right to designate a beneficiary who will receive his or her share of the net death benefit payable upon his or her death if the employment conditions of the plan have been met. The policies are owned by Mineola Community Bank, which paid the premium due on the policies. Under the plan, the insured beneficiary will receive an agreed upon amount and Mineola Community Bank is entitled to the remaining death benefit or the entire death benefit in cases where plan employment conditions were not met. The Company has included $6,004 and $5,904 in bank-owned life insurance on bank officers at December 31, 2022 and 2021, which represents the cash surrender value of the policies.

Note 15 - Employee Stock Ownership Plan

In connection with the Conversion to an entity owned by shareholders, the Company established an ESOP 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 will 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 expense was $213 and $202 for the years ended December 31, 2022 and 2021, respectively.

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

A summary of the ESOP shares as of December 31, 2022 and 2021 are as follows:

	2022	2021
Shares allocated to participants	26,062	13,031
Shares distributed to retiring participant	(220)	—
Unreleased shares	234,559	247,590
Total	260,401	260,621
Fair value of unreleased shares	$ 3,600	$ 3,838

Note 16 - Stock-Based Compensation

The Company has one equity incentive plan with two share-based compensation awards as described below. Total compensation cost that has been charged against income for those plans was $84 for the year ended December 31, 2022.

Stock Option Awards

The Company's 2022 Equity Incentive Plan (the Equity Plan), which is shareholder approved, permits the grant of stock options to its directors for up to 325,775 shares of common stock. Stock option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant; those option awards have vesting periods of five years and have 10-year contractual terms. The Company has a policy of using shares held as treasury stock to satisfy share option exercises. Currently, the Company does not have treasury shares and will issue new shares to satisfy expected stock option exercises.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions determined by management. Expected volatility is based on historical volatility of the Company's common stock. The Company uses historical data when available to estimate option exercise and post-vesting termination behavior. Due to lack of historical data, the Company estimated the expected term of options granted is 7.5 years. This represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The Company's accounting policy is to recognize forfeitures as they occur. The risk-free interest rate for the expected term of the options is based on the 7-year U.S. Treasury yield curve in effect at the time of the grants. On August 31, 2022, the non-employee directors of the Company were granted 97,728 stock options with a cost of $6.50 per option and an exercise price of $16.00. These options will vest annually over a five year period ending August 31, 2027 and will expire on August 31, 2032. Compensation expense for the stock options for the year ended was $42.

The fair value of options granted was determined using the following weighted-average assumptions as of grant date.

	2022
Expected volatility	30.25 %
Expected dividends	- %
Expected term (in years)	7.50
Risk-free rate	3.25 %

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

A summary of the activity in the stock option awards for 2022 follows:

Options	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2021	-	$ -	-
Granted	97,728	16.00	4.7
Exercised	-	-	-
Forfeited or expired	-	-	-
Outstanding at December 31, 2022	97,728	$ 16.00	4.7
Exercisable at December 31, 2022	-	$ -	-

Non-Vested Options	Options	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2021	-	$ -
Granted	97,728	6.50
Vested	-	-
Exercised	-	-
Forfeited	-	-
Non-vested at December 31, 2022	97,728	$ 6.50

As of December 31, 2022, there was $593 of total unrecognized compensation cost related to nonvested stock options granted under the plan. The cost is expected to be recognized over a weighted-average period of five years.

Restricted Stock Awards

The Equity Plan also permits the grant of restricted stock to its directors. Compensation expense for restricted stock awards is recognized over the vesting period of the awards based on the fair value of the stock at issue date. The fair value of the stock was determined using the closing stock price of the Company on grant date. Restricted shares fully vest on the fifth anniversary of the grant date. On August 31, 2022, the non-employee directors of the Company were granted 39,084 shares of Company stock at a fair market value of $16.00 per share. These stock awards will vest in five equal annual installments through August 31, 2027. Compensation expense for the stock awards for the year ended December 31, 2022 was $42.

A summary of changes in the Company's nonvested shares for the year follows:

Non-Vested Shares	Shares	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2021	-	$ -
Granted	39,084	16.00
Vested	-	-
Exercised	-	-
Forfeited	-	-
Non-vested at December 31, 2022	39,084	$ 16.00

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

As of December 31, 2022, there was $584 of total unrecognized compensation cost related to nonvested restricted stock granted under the plan. The cost is expected to be recognized over a weighted-average period of five years.

Note 17 - Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates.

Annual activity consisted of the following:

	December 31, 2022	December 31, 2021
Beginning balance	$ 4,022	$ 5,706
Additions	3,536	1,830
Repayments	(2,541)	(3,514)
Ending balance	$ 5,017	$ 4,022

Deposits from related parties held by the Company at December 31, 2022 and 2021, amounted to $5,916 and $4,027, respectively.

Note 18 - Supplemental Cash Flow Information

Supplemental disclosure of cash flow information is as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Supplemental cash flow information:		
Loan originations to facilitate the sale of foreclosed assets	$ 8	$ —
Cash paid for		
Interest on deposits	$ 1,360	$ 1,536
Interest on FHLB advances	709	620
Other interest	10	11
Income taxes	350	320

Note 19 - 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 December 31, 2022 and 2021, the Bank's CBLR ratio was 12.31% and 12.89%, respectively, which exceeded all regulatory capital requirements under the CBLR framework and the Bank was considered to be "well-capitalized."

Under the CLBR 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% are 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, are considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Accordingly, a qualifying community banking organization that exceeds the 9% CBLR is 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. A qualifying community banking organization that elects 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.

On April 6, 2020, the federal banking regulators, implementing the applicable provisions of the CARES Act, issued interim rules which modified the CBLR framework so that: (i) beginning second quarter 2020 and until the end of the year, a banking organization that has a leverage ratio of 8% or greater and meets certain other criteria may elect to use the CBLR framework; and (ii) community banking organizations will have until January 1, 2022 before the CBLR requirement is reestablished at greater than 9%. Under the interim rules, the minimum CBLR will be 8% beginning in the second quarter and for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. The interim rules also maintain a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 1% below the applicable community bank leverage ratio.

Note 20 - 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.

- 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 and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. There have been no changes in valuation techniques during the years ended December 31, 2022 and 2021.

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

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

Impaired Loans - Impaired 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.

Foreclosed Assets – Fair values are valued at the time the loan is foreclosed upon and the asset is transferred from loans. 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 the inputs for determining fair value. Foreclosed assets are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same or similar factors above.

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

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2022 and 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2022			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total 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

	December 31, 2021			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Available for sale securities				
Residential mortgage-backed	$ —	$ 18,785	$ —	$ 18,785
Collateralized mortgage obligations	—	11,076	—	11,076
State and municipal	—	11,539	—	11,539
Corporate bonds	—	2,406	—	2,406
U.S. Government and agency	—	12,994	—	12,994
Total financial assets	$ —	$ 56,800	$ —	$ 56,800

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).

The following table summarizes financial and non-financial assets measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2022			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Impaired loans	$ —	$ —	$ 89	$ 89
	$ —	$ —	$ 89	$ 89

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

	December 31, 2021			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Impaired loans	$ —	$ —	$ 1,274	$ 1,274
Nonfinancial assets				
Foreclosed assets	—	—	209	209
	$ —	$ —	$ 1,483	$ 1,483

During the years ended December 31, 2022 and 2021, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation based upon the fair value of the underlying collateral. 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. At December 31, 2021, impaired loans with a carrying value of $1,582 were reduced by specific valuation allowance allocations totaling $308 to a reported fair value of $1,274. The fair value of impaired loans is determined based on collateral valuations utilizing Level 3 valuation inputs. There was no change to the provision for loan and lease losses as a result of the valuation allowance for the years ended December 31, 2022 and 2021.

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 December 31, 2022	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	$ 89	Appraisal of collateral (1)	Appraisal adjustment	10-25 %

Instrument	Fair Value at December 31, 2021	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	$ 1,274	Appraisal of collateral (1)	Appraisal adjustment	10-25 %
Foreclosed assets	$ 209	Appraisal of collateral (1)	Appraisal adjustment	10-25 %

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

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

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

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

	December 31, 2021				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Total Carrying Value
Financial assets					
Cash and cash equivalents	$ 21,915	$ —	$ —	$ 21,915	$ 21,915
Interest bearing deposits in banks	14,955	—	—	14,955	14,955
Securities held to maturity	—	33,673	—	33,673	33,682
Loans, net	—	—	224,354	224,354	220,162
Net investment in direct financing leases	—	—	105	105	105
Interest receivable	931	—	—	931	931
Restricted investments carried at cost	—	2,037	—	2,037	2,037
Mortgage servicing rights	—	—	8	8	8
Financial liabilities					
Deposits	—	—	274,995	274,995	274,933
FHLB advances	—	—	28,259	28,259	27,571
Interest payable	128	—	—	128	128

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.

Interest receivable – The carrying value approximates its fair value.

(Amounts in thousands, except for 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.

Interest payable – The carrying value approximates the fair value.

Note 21 - Core Deposit Intangible

Core deposit intangible assets were recorded as part of the MapleMark Edgewood Branch Acquisition.

The components of core deposit intangible assets were as follows:

	December 31, 2022	December 31, 2021
Core deposit intangible	$ 926	$ 926
Less accumulated amortization	(529)	(397)
Net core deposit intangible	$ 397	$ 529

Core deposit intangible assets are amortized on a straight-line basis over their estimated life of 7 years. There was $132 of amortization expense related to intangible assets for each of the years ended December 31, 2022 and 2021. The estimated aggregate future amortization expense for core deposit intangible assets remaining as of December 31, 2022, was as follows:

Years ended December 31:	
2023	$ 132
2024	132
2025	133
Total	$ 397

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

Note 22 - Condensed Parent Company Financial Statements

Included below are the condensed financial statements of the Parent Company, Texas Community Bancshares, Inc.:

	December 31, 2022	December 31, 2021
Assets		
Cash and cash equivalents	$ 13,295	$ 13,531
Investment in subsidiary	42,160	46,429
Other receivables	62	26
Deferred income taxes	72	111
Restricted investment carried at cost	157	—
Other assets	133	40
	$ 55,879	$ 60,137
Liabilities		
Accrued expenses and other liabilities	9	5
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, 3,296,843 and 3,257,759 shares issued and outstanding at December 31, 2022 and 2021, respectively	33	33
Additional paid in capital	31,099	30,932
Retained earnings	34,083	32,329
Accumulated other comprehensive loss	(6,999)	(686)
Unearned Employee Stock Ownership Program shares	(2,346)	(2,476)
Total shareholders' equity	55,870	60,132
	$ 55,879	$ 60,137

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

	December 31, 2022	December 31, 2021
Expenses		
Contribution expense - TCBS Foundation	$ —	$ 575
Other expenses	257	76
Total expenses	257	651
Loss Before Income Taxes and Equity in Earnings of Subsidiary	(257)	(651)
Income Tax Benefit	(52)	(136)
Loss Before Equity in Earnings of Subsidiary	(205)	(515)
Equity in Earnings of Subsidiary		
Dividend income	—	500
Undistributed earnings of subsidiary	1,959	533
Total equity in earnings of subsidiary	1,959	1,033
Net Income	$ 1,754	$ 518
Other items of comprehensive loss		
Unrealized loss on investment securities available for sale, before tax	(8,020)	$ (1,031)
Reclassification adjustment for realized loss on sale of investment securities included in net income	29	—
Income tax benefit related to other items of comprehensive loss	1,678	217
Total other items of comprehensive loss, net of tax benefit	(6,313)	(814)
Comprehensive Loss	$ (4,559)	$ (296)

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

	December 31, 2022	December 31, 2021
Operating Activities		
Net income	$ 1,754	$ 518
Adjustments to reconcile net income to net cash (used for) from operating activities		
Equity in undistributed earnings of subsidiary	(1,959)	(533)
ESOP compensation expense for allocated shares	213	202
Deferred tax benefit	39	(111)
Increase in other assets	(129)	(66)
Increase in accrued expenses	3	5
Net Cash (used for) from Operating Activities	(79)	15
Investing Activities		
Purchase of restricted investments	(157)	—
Dividends received	—	40
Net Cash (used for) from Investing Activities	(157)	40
Financing Activities		
Proceeds from issuance of common stock, net of offering costs	—	30,883
Proceeds from conversion transferred to bank	—	(15,267)
Loan to ESOP for purchase of common stock	—	(2,606)
Net Cash from Financing Activities	—	13,010
Net Change in Cash and Cash Equivalents	(236)	13,065
Cash and Cash Equivalents at Beginning of Year	13,531	466
Cash and Cash Equivalents at End of Year	$ 13,295	$ 13,531

Note 23 - Recently Issued But Not Yet Effective Accounting Pronouncements

Accounting Standards Updated (ASU) 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. ASU 2016-13 is effective for the Company on January 1, 2023. The Company has approved a third-party vendor recommended by the Current Expected Credit Losses team. Management has been working with their third party and reviewing loan data and other inputs into the model during the quarter ended December 31, 2022, as well as re-evaluating the Company’s internal and external factors, including economic and peer data. The Company adopted ASU 2016-13 on January 1, 2023 and will disclose the financial impacts in the Company’s Form 10-Q for the quarter ending

March 31, 2023. Management has made an election to move the impact through capital as of the date of adoption. The Company does not expect it to have a material impact on the Company's consolidated financial statements.

ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 eliminates the recognition and measurement guidance for troubled debt restructurings ("TDRs") by creditors in ASC 310-40. This Update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. Additionally, the amendments in this ASU require a public business entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases in the existing vintage disclosures. The amendments in this Update are effective for the Company's annual and interim periods beginning on January 1, 2023. This Update requires prospective transition for the disclosures related to loan restructurings for borrowers experiencing financial difficulty and the presentation of gross write-offs in the vintage disclosures. The guidance related to the recognition and measurement of TDRs may be adopted on a prospective or modified retrospective transition method. The effect of adopting this standard is not anticipated to have a material impact on the Company's consolidated financial statements.

ITEM 9. <u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u>

None.

ITEM 9A. <u>Controls and Procedures</u>

(a) Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chairman of the Board, President and Chief Executive Officer and the Senior Vice President and 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 December 31, 2022. Based on that evaluation, the Company's management, including the Chairman of the Board, President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

The Company's management, including the principal executive officer and principal financial officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022, based on the criteria set forth in the "*Internal Control-Integrated Framework (2013)*" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such assessment, management concluded that, as of December 31, 2022, the Company's internal control over financial reporting is effective, based on those criteria.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to provisions of the Dodd-Frank Act that permits the Company to provide only management's report in this annual report.

(c) Changes to Internal Control Over Financial Reporting

During the year ended December 31, 2022, there have been no changes to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. Other Information

None.

ITEM 9C. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections

Not applicable.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The Company's has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer and principal accounting officer or controller or persons performing similar functions. A copy is available on the Investors section of Mineola Community Bank's website at www.mineolacb.com.

The information contained in the sections captioned "Business Items to be Voted on by Stockholders – Item 1 Election of Directors," "Other Information Relating to Directors and Executive Officers" and "Corporate Governance" in the Company's definitive Proxy Statement for the 2023 Annual Meeting of Stockholders (the " 2023 Proxy Statement") is incorporated herein by reference.

ITEM 11. Executive Compensation

The information contained in the sections captioned "Executive Compensation" and "Directors' Compensation" in the 2023 Proxy Statement is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Securities Authorized for Issuance Under Stock-Based Compensation Plans

The following information is presented for the Texas Community Bancshares, Inc. 2022 Equity Incentive Plan, as of December 31, 2022:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (column a)	Weighted-average exercise price of outstanding options, warrants and rights (column b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	97,728	$ 16.00	319,273
Equity compensation plans not approved by stockholders	N/A	N/A	N/A
Total	97,728	$ 16.00	319,273

(b) Securities Ownership of Certain Beneficial Owners

The information required by this item is incorporated herein by reference to the section captioned "Stock Ownership" in the 2023 Proxy Statement.

(c) Security Ownership of Management

The information required by this item is incorporated herein by reference to the section captioned "Stock Ownership" in the 2023 Proxy Statement.

(d) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a later date result in a change in control of the Company.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the sections captioned "Other Information Relating to Directors and Executive Officers – Transactions with Certain Related Persons" and "Corporate Governance" of the 2023 Proxy Statement.

ITEM 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned "Business Items to be Voted on by Stockholders – Item 2 – Ratification of Appointment of Independent Registered Public Accounting Firm" of the 2023 Proxy Statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

3.1	Articles of Incorporation of Texas Community Bancshares, Inc. (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, 2022)
3.2	Amended and Restated Bylaws of Texas Community Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, as filed on January 26, 2022)
4.1	Form of Common Stock Certificate of Texas Community Bancshares, Inc. (incorporated by reference to Exhibit 4.1 the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-254053), as filed on March 9, 2021)
4.2	Description of Securities Registered Under Section 12 of the Securities Exchange Act of 1934
10.1	Employment Agreement between Mineola Community Bank, S.S.B. and James H. Herlocker, III (incorporated by reference to Exhibit 10.1 the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-254053), as filed on March 9, 2021) †
10.2	Employment Agreement between Mineola Community Bank, S.S.S. and Julie Sharff (incorporated by reference to Exhibit 10.2 the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-254053), as filed on March 9, 2021)†
10.3	Employment Agreement between Mineola Community Bank, S.S.S. and Terri Baucum (incorporated by reference to Exhibit 10.3 the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-254053), as filed on March 9, 2021)†
10.4	Employment Agreement between Mineola Community Bank, S.S.S. and Sheree Mize (incorporated by reference to Exhibit 10.4 the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-254053), as filed on March 9, 2021)†
10.5	Mineola Community Bank Deferred Incentive Compensation Plan (incorporated by reference to Exhibit 10.5 the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-254053), as filed on March 9, 2021)†
10.6	Mineola Community Bank Split Dollar Life Insurance Plan, as amended (incorporated by reference to Exhibit 10.6 the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-254053), as filed on March 9, 2021)†
10.7	Mineola Community Bank Split Dollar Life Insurance Plan Participation Agreement with James H. Herlocker, III (incorporated by reference to Exhibit 10.7 the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-254053), as filed on March 9, 2021)†
10.8	Form of Mineola Community Bank Split Dollar Life Insurance Plan Participation Agreement for certain executive officer (incorporated by reference to Exhibit 10.8 the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-254053), as filed on March 9, 2021)†
10.9	Compensation Agreement with Robert L. Smith, III (incorporated by reference to Exhibit 10.9 the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-254053), as filed on March 9, 2021)†
21	Subsidiaries of Registrant
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, formatted in inline XBRL: (i) Statements of Financial Condition, (ii) Statements of Income, (iii) Statements of Comprehensive Loss, (iv) Changes in Shareholders' Equity, (v) Statements of Cash Flows and (vi) Notes to the Financial Statements.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

† Management contract or compensation plan or arrangement.

ITEM 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 30, 2023

By: /s/ James H. Herlocker, III
James H. Herlocker, III
Chairman, President and Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ James H. Herlocker, III James H. Herlocker, III	Chairman, President and Chief Executive Officer (Principal Executive Officer)	March 30, 2023
/s/ Julie Sharff Julie Sharff, CPA	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2023
/s/ Demethrius T. Boyd Demethrius T. Boyd	Director	March 30, 2023
/s/ Clifton D. Bradshaw Clifton D. Bradshaw	Director	March 30, 2023
/s/ James B. Harder James B. Harder	Director	March 30, 2023
/s/ Kerry A. Kindle Kerry A. Kindle	Director	March 30, 2023
/s/ Sheree A. Mize Sheree A. Mize	Corporate Secretary and Director	March 30, 2023
/s/ Mark A. Pickens Mark A. Pickens	Director	March 30, 2023

/s/ Jerry Presswood Jerry Presswood	Director	March 30, 2023
/s/ Kerry Nan Saucier Kerry Nan Saucier	Director	March 30, 2023
/s/ Anthony R. Scavuzzo Anthony R. Scavuzzo	Director	March 30, 2023
/s/ Johnny Sherrill Johnny Sherrill	Director	March 30, 2023
/s/ Robert L. Smith, III Robert L. Smith, III	Director	March 30, 2023
/s/ Bryan Summerville Bryan Summerville	Director	March 30, 2023
/s/ Glen Thurman Glen Thurman	Director	March 30, 2023

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