UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2022

Or

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

Commission File Number 001-41232

NSTS BANCORP, INC.
(Exact name of the registrant as specified in its charter)

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**87-2522769** **(I.R.S. Employer Identification Number)**
700 S. Lewis Ave. Waukegan, Illinois **(Address of principal executive offices)**	**60085** **(Zip Code)**

(847) 336-4430
(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	NSTS	NASDAQ Capital Market

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

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

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

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

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

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

As of August 11, 2022, the Registrant had 5,397,959 shares of its common stock outstanding.

NSTS Bancorp, Inc.

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Explanatory Note

NSTS Bancorp, Inc. was formed to serve as the stock holding company for North Shore Trust and Savings (the "Bank") in connection with the conversion of North Shore Trust and Savings, NSTS Financial Corporation and North Shore MHC, into the stock form of organization, which was completed on January 18, 2022. Accordingly, certain financial statements and other financial information at or prior to January 18, 2022, contained in this Form 10-Q relate solely to the consolidated financial results of North Shore MHC and its consolidated subsidiaries, NSTS Financial Corporation and North Shore Trust and Savings. See also NSTS Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2021.

Part I. Financial Information
Item 1. Consolidated Financial Statements

NSTS BANCORP, INC.
Consolidated Balance Sheets

	June 30, 2022 (unaudited)	December 31, 2021
	(Dollars in thousands)	
Assets:		
Cash and due from banks	$ 1,174	$ 814
Interest-bearing bank deposits	31,650	120,797
Cash and cash equivalents	32,824	121,611
Time deposits with other financial institutions	3,970	3,469
Securities available for sale	121,247	100,950
Federal Home Loan Bank stock (FHLB)	550	550
Loans held for sale	—	104
Loans, net of unearned income	96,147	97,313
Allowance for loan losses	(769)	(779)
Loans, net	95,378	96,534
Premises and equipment, net	5,154	5,087
Accrued interest receivable	757	641
Bank-owned life insurance (BOLI)	9,158	9,071
Other assets	5,211	2,852
Total assets	$ 274,249	$ 340,869
Liabilities:		
Deposits:		
Noninterest bearing	$ 12,917	$ 99,090
Interest-bearing		
Demand and NOW checking	16,871	17,931
Money market	46,508	45,414
Savings	48,599	50,312
Time deposits over $250,000	8,921	9,380
Other time deposits	52,521	63,494
Total deposits	186,337	285,621
Escrow deposits	1,416	1,442
Other borrowings	—	5,000
Accrued expenses and other liabilities	2,984	3,623
Total liabilities	$ 190,737	$ 295,686
Stockholders' equity:		
Common Stock ($0.01 par value; 10,000,000 shares authorized; 5,397,959 shares issued and outstanding)	54	—
Additional paid-in capital	50,411	—
Retained earnings	45,134	45,264
Unallocated common shares held by ESOP	(4,232)	—
Accumulated other comprehensive loss, net	(7,855)	(81)
Total stockholders' equity	83,512	45,183
Total liabilities and stockholders' equity	$ 274,249	$ 340,869

See accompanying notes to consolidated unaudited financial statements

NSTS BANCORP, INC.
Consolidated Statements of Operations (unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Interest income:				
Loans, including fees	$ 883	$ 876	$ 1,726	$ 1,809
Securities				
Taxable	437	288	762	578
Tax-exempt	105	61	194	121
Federal funds sold and other	73	5	102	10
Time deposits with other financial institutions	6	16	11	48
FHLB Stock	3	3	7	6
Total interest income	1,507	1,249	2,802	2,572
Interest expense:				
Deposits	191	237	382	491
Net interest income	1,316	1,012	2,420	2,081
(Reversal of) Provision for loan losses	(16)	17	(16)	17
Net interest income after provision for loan losses	1,332	995	2,436	2,064
Noninterest income:				
Gain on sale of mortgage loans	38	81	69	245
Rental income on office building	10	10	21	21
Service charges on deposits	75	74	146	141
Increase in cash surrender value of BOLI	44	44	87	88
Other	522	66	554	103
Total noninterest income	689	275	877	598
Noninterest expense:				
Salaries and employee benefits	1,057	822	2,010	1,691
Equipment and occupancy	161	156	342	341
Data processing	154	154	302	328
Professional services	137	47	270	112
Advertising	12	14	38	38
Supervisory fees and assessments	37	31	78	63
Loan expenses	20	31	49	72
Deposit expenses	54	50	88	95
Foreclosure and other real estate owned expenses	—	8	—	8
Other	200	83	302	165
Total noninterest expense	1,832	1,396	3,479	2,913
Income (Loss) before income taxes	189	(126)	(166)	(251)
Income tax expense (benefit)	40	(193)	(36)	(237)
Net income (loss)	$ 149	$ 67	$ (130)	$ (14)
Basic and diluted earnings (loss) per share	$ 0.03	N/A	$ (0.03)	N/A
Weighted average shares outstanding	4,971,930	N/A	4,475,914	N/A

See accompanying notes to consolidated unaudited financial statements

NSTS BANCORP, INC.
Consolidated Statements of Comprehensive Income (Losses) (unaudited)

	For the three months ended June 30,	
	2022	2021
	(Dollars in thousands)	
Net income	$ 149	$ 67
Unrealized net holding (loss) gain on securities		
Unrealized net holding (loss) gain on securities arising during period, net of realized gains on sales of $0, in the three months ended June 30, 2022 and 2021.	(4,631)	28
Tax effect	1,320	(8)
Other comprehensive (loss) income, net of taxes	(3,311)	20
Comprehensive (loss) income	$ (3,162)	$ 87

	For the six months ended June 30,	
	2022	2021
	(Dollars in thousands)	
Net losses	$ (130)	$ (14)
Unrealized net holding loss on securities		
Unrealized net holding loss on securities arising during period, net of realized gains on sales of $0, in the six months ended June 30, 2022 and 2021.	(10,874)	(1,170)
Tax effect	3,100	334
Other comprehensive loss, net of taxes	(7,774)	(836)
Comprehensive loss	$ (7,904)	$ (850)

See accompanying notes to consolidated unaudited financial statements

NSTS BANCORP, INC.
Consolidated Statements of Stockholders' Equity (unaudited)

	Common Shares	Common Stock	Additional Paid-In Capital	Retained earnings	Accumulated other comprehensive income (loss)	Unallocated Common Share Held by ESOP	Total
				(Dollars in thousands)			
				Quarter ended June 30, 2021			
Balance at March 31, 2021	—	$ —	$ —	$ 45,238	$ 550	$ —	$ 45,788
Net income	—	—	—	67	—	—	67
Change in net unrealized gain on securities available for sale, net	—	—	—	—	20	—	20
Balance at June 30, 2021	—	$ —	$ —	$ 45,305	$ 570	$ —	$ 45,875
				Quarter ended June 30, 2022			
Balance at March 31, 2022	5,397,959	$ 54	$ 50,405	$ 44,985	$ (4,544)	$ (4,275)	$ 86,625
Net income	—	—	—	149	—	—	149
ESOP shares committed to be released	—	—	6	—	—	43	49
Change in net unrealized loss on securities available for sale, net	—	—	—	—	(3,311)	—	(3,311)
Balance at June 30, 2022	5,397,959	$ 54	$ 50,411	$ 45,134	$ (7,855)	$ (4,232)	$ 83,512

	Common Share	Common Stock	Additional Paid-In Capital	Retained earnings	Accumulated other comprehensive income (loss)	Unallocated Common Share Held by ESOP	Total
				(Dollars in thousands)			
				For the six months ended June 30, 2021			
Balance at December 31, 2020	—	$ —	$ —	$ 45,319	$ 1,406	$ —	$ 46,725
Net losses	—	—	—	(14)	—	—	(14)
Change in net unrealized loss on securities available for sale, net	—	—	—	—	(836)	—	(836)
Balance at June 30, 2021	—	$ —	$ —	$ 45,305	$ 570	$ —	$ 45,875
				For the six months ended June 30, 2022			
Balance at December 31, 2021	—	$ —	$ —	$ 45,264	$ (81)	—	$ 45,183
Net losses	—	—	—	(130)	—	—	(130)
Proceeds of stock offering and issuance of common shares (net of issuance costs of $2.5 million)	5,290,000	53	49,387	—	—	—	49,440
Issuance of common shares donated to the NSTS Charitable Foundation	107,959	1	1,008	—	—	—	1,009
Purchase of common shares by the ESOP (431,836 shares)	—	—	—	—	—	(4,319)	(4,319)
ESOP shares committed to be released	—	—	16	—	—	87	103
Change in net unrealized loss on securities available for sale, net	—	—	—	—	(7,774)	—	(7,774)
Balance at June 30, 2022	5,397,959	$ 54	$ 50,411	$ 45,134	$ (7,855)	$ (4,232)	$ 83,512

See accompanying notes to consolidated unaudited financial statements

NSTS BANCORP, INC.
Consolidated Statements of Cash Flows (unaudited)

	For the six months ended June 30,	
	2022	2021
	(Dollars in thousands)	
Cash flows from operating activities:		
Net losses	$ (130)	$ (14)
Adjustments to reconcile net losses to net cash provided by operating activities:		
Depreciation	132	136
Securities amortization and accretion, net	594	615
Loans originated for sale	(5,671)	(12,068)
Proceeds from sales of loans held for sale	5,844	13,906
Gain on sale of mortgage loans	(69)	(245)
Gain on transfer to OREO	—	(6)
(Reversal of) Provision for loan losses	(16)	17
Earnings on bank owned life insurance	(87)	(88)
Issuance of common shares donated to North Shore Trust and Savings Charitable Foundation	1,009	—
ESOP Expense	103	—
Increase (decrease) in accrued interest receivable and other assets	625	(458)
Net decrease in accrued expenses and other liabilities	(639)	(462)
Net cash provided by operating activities	1,695	1,333
Cash flows from investing activities:		
Net decrease in portfolio loans	1,172	515
Principal repayments on mortgage-backed securities	9,134	8,306
Purchases of securities available for sale	(42,139)	(28,520)
Maturities and calls of securities available for sale	1,240	1,765
Purchase of Federal Home Loan Bank stock	—	(37)
(Increase) Decrease in time deposits with other financial institutions, net	(501)	6,237
Purchases of premises and equipment, net	(199)	(69)
Net cash used in investing activities	(31,293)	(11,803)
Cash flows from financing activities:		
Net change in deposits	(99,284)	(1,998)
Net change in escrow deposits	(26)	(50)
Repayment of FHLB Advance	(5,000)	(4,000)
Proceeds from FHLB Advance	—	5,000
Proceeds from issuance of common stock, net of costs	49,440	—
Loan to ESOP	(4,319)	—
Net cash used in financing activities	(59,189)	(1,048)
Net change in cash and cash equivalents	(88,787)	(11,518)
Cash and cash equivalents at beginning of period	121,611	31,868
Cash and cash equivalents at end of period	$ 32,824	$ 20,350
Supplemental disclosures of cash flow information:		
Loan transferred to OREO	$ —	$ 62
Cash paid during the period for: Interest	381	504

See accompanying notes to consolidated unaudited financial statements

Notes to the Unaudited Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements ("the financial statements") have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and conform to practices within the banking industry. The accounting policies followed in the preparation of the interim consolidated financial statements are consistent with those used in the preparation of the annual financial statements. The interim consolidated financial statements reflect all normal and recurring adjustments that are necessary, in the opinion of management, for fair statement of results for the interim periods presented. Results for the three and six month periods ended June 30, 2022, are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

Nature of Operations

NSTS Bancorp, Inc. ("NSTS" or the "Company", "we" or "our") was formed to serve as the stock holding company for North Shore Trust and Savings (the "Bank") in connection with the conversion of North Shore Trust and Savings, NSTS Financial Corporation and North Shore MHC, into the stock form of organization, which was completed on January 18, 2022. Accordingly, certain financial statements and other financial information at or prior to January 18, 2022, contained in this Form 10-Q relate solely to the consolidated financial results of North Shore MHC and its consolidated subsidiaries, NSTS Financial Corporation and North Shore Trust and Savings.

NSTS Bancorp, Inc. completed its stock offering on January 18, 2022. The Company sold 5,290,000 shares of common stock at $10.00 per share in its subscription offering for gross proceeds of approximately $53.0 million. In connection with the subscription offering, NSTS Bancorp, Inc. also issued 107,959 shares of common stock and $150,000 in cash to NSTS Charitable Foundation. Shares of NSTS Bancorp, Inc. stock began trading on January 19, 2022 on the Nasdaq Capital Market under the trading symbol "NSTS."

The Bank operates primarily in the northern suburbs of Chicago, Illinois. The Bank offers a variety of financial services to customers in the surrounding community. Financial services consist primarily of 1-4 family mortgage loans, savings accounts, and certificate of deposit accounts. There are no significant concentrations of loans to any one industry or customer. The Bank's exposure to credit risk is significantly affected by changes in the economy in the Bank's market area.

Employee Retention Credit

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law on March 27, 2020 and the subsequent extension of the CARES Act, the Company was eligible for a refundable employee retention credit subject to certain criteria. The Bank qualifies for the tax credit for the quarters ended June 30, 2021 and September 30, 2021 under the CARES Act. The Bank utilized the gross receipts method of calculating eligibility. Based on the eligibility, the tax credit is equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee is $10,000 of qualified wages per quarter.

The Employee Retention Credit was recorded during the second quarter of 2022, when the Bank determined they were eligible. The credit is recorded as other non-interest income and offsets $503,000 of salaries and employee benefits previously recorded as an expense during 2021. As of June 30, 2022 cannot reasonably estimate when it will receive the refunds. The receivable is recorded in other assets on the Consolidated Balance Sheets. The CARES Act and related Employee Retention Credit was terminated as of September 30, 2021, and therefore the Company does not expect to file for any additional refunds.

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements were prepared in accordance with GAAP and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the North Shore MHC's Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. The unaudited Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from those estimates. Material estimates that could significantly change in the near-term include the adequacy of the allowance for loan losses, determination of the valuation allowance on deferred tax assets and the valuation of investment securities and the related tax effect. The results of operations for the three and six months ended June 30, 2022, are not necessarily indicative of results that may be expected for any other interim period or the entire fiscal year ending December 31, 2022. Certain amounts in prior year financial statements have been reclassified to conform to the current presentation. Subsequent events have been evaluated through the date of issuance of the unaudited Consolidated Financial Statements. No significant subsequent events have occurred through this date requiring adjustment to the financial statements or disclosures.

With the exception of the following new significant accounting and reporting policies, the Company has not changed its significant accounting and reporting policies from those disclosed in the Company's Form 10-K for the year ended December 31, 2021.

Employee Stock Ownership Plan

The ESOP shares pledged as collateral are reported as unearned ESOP shares in the Consolidated Statements of Financial Condition. As shares are committed to be released from collateral, the Bank reports compensation expense equal to the average market price of the shares during the year, and the shares become outstanding for basic net income per common share computations. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce the ESOP's debt and accrued interest.

Earnings per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Unallocated ESOP shares are not deemed outstanding for earnings per share calculations. ESOP shares committed to be released are considered to be outstanding for purposes of the earnings per share computation. ESOP shares that have not been legally released, but that relate to employee services rendered during an accounting period (interim or annual) ending before the related debt service payment is made, are considered committed to be released. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance.

Accounting Developments

Accounting for Financial Instruments – Credit Losses

The FASB issued ASU No. 2016-13, *Financial Instruments— Credit Losses (Topic 326)*. The ASU introduces a new credit loss model, the current expected credit loss model (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk.

The CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities, and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models, which generally require that a loss be incurred before it is recognized.

The CECL model represents a significant change from existing practice and may result in material changes to the Bank's accounting for financial instruments. The Bank is evaluating the effect ASU 2016-13 will have on its consolidated financial statements and related disclosures. The impact of the ASU will depend upon the final standard (as amended), the state of the economy, and the nature of the Bank's portfolios at the date of adoption. For the Bank, the new standard is effective January 2023.

Note 2: Securities

The amortized cost and estimated fair value of debt securities at June 30, 2022 and December 31, 2021, by contractual maturity, are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties, therefore, these securities have been included in the below table based on average remaining life.

June 30, 2022	U.S. Treasury Notes	U.S. government agency obligations	Municipal obligations	Mortgage-backed residential obligations	Collateralized mortgage obligations	Total available-for-sale
			(Dollars in thousands)			
1 year or less	$ 4,990	$ —	$ 871	$ —	$ 423	$ 6,284
1 to 5 years	2,440	8,771	4,955	29,242	22,659	68,067
5 to 10 years	—	9,290	3,022	11,174	8,673	32,159
After 10 years	—	—	11,382	—	3,355	14,737
Fair value	7,430	18,061	20,230	40,416	35,110	121,247
Gross unrealized gains	—	—	19	—	—	19
Gross unrealized losses	(48)	(1,098)	(2,646)	(3,993)	(3,221)	(11,006)
Amortized cost	$ 7,478	$ 19,159	$ 22,857	$ 44,409	$ 38,331	$ 132,234

December 31, 2021	U.S. government agency obligations	Municipal obligations	Mortgage-backed residential obligations	Collateralized mortgage obligations	Total available-for-sale
			(Dollars in thousands)		
1 year or less	$ —	$ 1,631	$ 356	$ 1,064	$ 3,051
1 to 5 years	5,587	3,941	29,375	16,097	55,000
5 to 10 years	4,466	2,244	12,417	11,976	31,103
After 10 years	—	10,184	—	1,612	11,796
Fair value	10,053	18,000	42,148	30,749	100,950
Gross unrealized gains	73	423	259	279	1,034
Gross unrealized losses	(78)	(14)	(612)	(443)	(1,147)
Amortized cost	$ 10,058	$ 17,591	$ 42,501	$ 30,913	$ 101,063

As of June 30, 2022, and December 31, 2021, no securities were pledged to secure public deposits or for other purposes as required or permitted by law.

Information pertaining to securities with gross unrealized losses at June 30, 2022 and December 31, 2021, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	Less than 12 Months		12 Months or Longer		Total	
			(Dollars in thousands)			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2022						
U.S. Treasury Notes	$ 7,430	$ (48)	$ —	$ —	$ 7,430	$ (48)
U.S. government agency obligations	16,993	(1,085)	1,068	(13)	18,061	$ (1,098)
Municipal obligations	14,949	(2,626)	231	(20)	15,180	(2,646)
Mortgage-backed residential obligations	26,310	(2,115)	14,106	(1,878)	40,416	(3,993)
Collateralized mortgage obligations	23,822	(1,705)	11,288	(1,516)	35,110	(3,221)
Total	$ 89,504	$ (7,579)	$ 26,693	$ (3,427)	$ 116,197	$ (11,006)
December 31, 2021						
U.S. government agency obligations	$ 4,020	$ (62)	$ 1,105	$ (16)	$ 5,125	$ (78)
Municipal obligations	2,399	(8)	247	(6)	2,646	(14)
Mortgage-backed residential obligations	26,540	(535)	2,781	(77)	29,321	(612)
Collateralized mortgage obligations	16,715	(338)	4,386	(105)	21,101	(443)
Total	$ 49,674	$ (943)	$ 8,519	$ (204)	$ 58,193	$ (1,147)

At June 30, 2022 and December 31, 2021, certain investment securities were in unrealized loss positions. Some investment securities have declined in value but do not presently represent realized losses. Unrealized losses on investment securities have not been recognized into income because the issuers' bonds are of high credit quality, the Bank has the intent and ability to hold the securities for the foreseeable future, and the declines in fair value are primarily due to market volatility. The fair values are expected to recover as the bonds approach their maturity dates.

There were no sales of securities available-for-sale during the three and six months ended June 30, 2022 and 2021.

Note 3: Loans and allowance for loan losses

A summary of loans by major category as of June 30, 2022 and December 31, 2021 is as follows:

	June 30, 2022	December 31, 2021
	(Dollars in thousands)	
First mortgage loans		
1-4 family residential	$ 87,586	$ 88,028
Multi-family	3,399	3,497
Commercial	4,128	4,604
Total first mortgage loans	95,113	96,129
Consumer loans	179	372
Total loans	95,292	96,501
Net deferred loan costs	855	812
Allowance for loan losses	(769)	(779)
Total loans, net	$ 95,378	$ 96,534

First mortgage loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balance of these loans totaled $14.5 million and $15.8 million at June 30, 2022 and December 31, 2021, respectively. Custodial escrow balances maintained in connection with the loans serviced were $248,000 and $270,000 at June 30, 2022 and December 31, 2021, respectively.

In the normal course of business, loans are made to directors and officers of the Bank (related parties). The terms of these loans, including interest rate and collateral, are similar to those prevailing for comparable transactions with other customers and do not involve more than a normal risk of collectability. At June 30, 2022 and December 31, 2021, such borrowers were indebted to the Bank in the aggregate amount of $528,000 and $556,000, respectively.

Changes in the allowance for loan losses as of and for the three and six months ended months ended June 30, 2022 and 2021 were as follows:

	June 30, 2022				
	1-4 family residential	Multi-family	Commercial	Consumer	Total
	(Dollars in thousands)				
Three months ended					
Beginning balance	$ 729	$ 27	$ 26	$ 3	$ 785
Charge-offs	—	—	—	—	—
Recoveries	—	—	—	—	—
Net recoveries (charge-offs)	—	—	—	—	—
(Release of) Provision for loan losses	(16)	(1)	—	1	(16)
Ending balance	$ 713	$ 26	$ 26	$ 4	$ 769

	June 30, 2022				
	1-4 family residential	Multi-family	Commercial	Consumer	Total
	(Dollars in thousands)				
Six months ended					
Beginning balance	$ 675	$ 69	$ 25	$ 10	$ 779
Charge-offs	—	—	—	—	—
Recoveries	6	—	—	—	6
Net recoveries (charge-offs)	6	—	—	—	6
(Release of) Provision for loan losses	32	(43)	1	(6)	(16)
Ending balance	$ 713	$ 26	$ 26	$ 4	$ 769

	June 30, 2021				
	1-4 family residential	Multi-family	Commercial	Consumer	Total
	(Dollars in thousands)				
Three months ended					
Beginning balance	$ 710	$ 26	$ 30	$ 106	$ 872
Charge-offs	—	—	—	(99)	(99)
Recoveries	2	—	—	—	2
Net recoveries (charge-offs)	2	—	—	(99)	(97)
(Release of) Provision for loan losses	(5)	22	(3)	3	17
Ending balance	$ 707	$ 48	$ 27	$ 10	$ 792

	June 30, 2021				
	1-4 family residential	Multi-family	Commercial	Consumer	Total
	(Dollars in thousands)				
Six months ended					
Beginning balance	$ 798	$ 29	$ 38	$ 5	$ 870
Charge-offs	—	—	—	(99)	(99)
Recoveries	4	—	—	—	4
Net recoveries (charge-offs)	4	—	—	(99)	(95)
(Release of) Provision for loan losses	(95)	19	(11)	104	17
Ending balance	$ 707	$ 48	$ 27	$ 10	$ 792

The balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2022 and December 31, 2021, were as follows:

	Collectively evaluated		Individually evaluated		Total	
	Allowance for loan losses	Recorded investment in loans	Allowance for loan losses	Recorded investment in loans	Allowance for loan losses	Recorded investment in loans
			(Dollars in thousands)			
June 30, 2022						
1-4 family residential	$ 609	$ 86,591	$ 104	$ 995	$ 713	$ 87,586
Multi-family	26	3,399	—	—	26	$ 3,399
Commercial	26	4,128	—	—	26	$ 4,128
Consumer	4	179	—	—	4	$ 179
Total	$ 665	$ 94,297	$ 104	$ 995	$ 769	$ 95,292
December 31, 2021						
1-4 family residential	$ 557	$ 86,892	$ 118	$ 1,136	$ 675	$ 88,028
Multi-family	69	3,497	—	—	69	$ 3,497
Commercial	25	4,604	—	—	25	$ 4,604
Consumer	10	372	—	—	10	$ 372
Total	$ 661	$ 95,365	$ 118	$ 1,136	$ 779	$ 96,501

The Bank evaluates collectability based on payment activity and other factors. The Bank uses a graded loan rating system as a means of identifying potential problem loans, as follows:

Pass
Loans in these categories are performing as expected with low to average risk.

Special Mention
Loans in this category are internally designated by management as “watch loans.” These loans are starting to show signs of potential weakness and are closely monitored by management.

Substandard
Loans in this category are internally designated by management as “substandard.” Generally, a loan is considered substandard if it is inadequately protected by the paying capacity of the obligors or the current net worth of the collateral pledged. Substandard loans present a distinct possibility that the Bank will sustain losses if such weaknesses are not corrected.

Doubtful
Loans classified as doubtful have all the weaknesses inherent in those designated as “substandard” with the added characteristic that the weaknesses may make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

On an annual basis, or more often if needed, the Bank formally reviews the ratings on commercial loans. In addition, the Bank performs an independent review of a significant portion of the commercial loan portfolio. Management uses the results of the independent review as part of its annual review process.

The following table presents loan balances based on risk rating as of June 30, 2022 and December 31, 2021:

	Pass	Special Mention	Substandard	Doubtful	Total loans
			(Dollars in thousands)		
June 30, 2022					
1-4 family residential	$ 87,467	$ 44	$ 75	$ —	$ 87,586
Multi-family	3,399	—	—	—	3,399
Commercial	4,128	—	—	—	4,128
Consumer	179	—	—	—	179
Total	$ 95,173	$ 44	$ 75	$ —	$ 95,292
December 31, 2021					
1-4 family residential	$ 87,881	$ 45	$ 102	$ —	$ 88,028
Multi-family	3,497	—	—	—	3,497
Commercial	4,604	—	—	—	4,604
Consumer	372	—	—	—	372
Total	$ 96,354	$ 45	$ 102	$ —	$ 96,501

The aging of the Bank's loan portfolio as of June 30, 2022 and December 31, 2021, is as follows:

	31-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loan Balance
			(Dollars in thousands)			
June 30, 2022						
1-4 family residential	$ 13	$ 123	$ 40	$ 176	$ 87,410	$ 87,586
Multi-family	—	—	—	—	3,399	3,399
Commercial	—	—	—	—	4,128	4,128
Consumer	—	—	—	—	179	179
Total	$ 13	$ 123	$ 40	$ 176	$ 95,116	$ 95,292
December 31, 2021						
1-4 family residential	$ —	$ 41	$ 102	$ 143	$ 87,885	$ 88,028
Multi-family	—	—	—	—	3,497	3,497
Commercial	—	—	—	—	4,604	4,604
Consumer	—	—	—	—	372	372
Total	$ —	$ 41	$ 102	$ 143	$ 96,358	$ 96,501

Loans individually evaluated for impairment as of June 30, 2022 and December 31, 2021, were as follows:

	Recorded investment	Unpaid principal balance	Related allowance
		(Dollars in thousands)	
June 30, 2022			
With no related allowance recorded			
1-4 family residential	$ 322	$ 525	$ —
Multi-family	—	—	—
Commercial	—	—	—
Consumer	—	—	—
Total	$ 322	$ 525	$ —
With a related allowance recorded			
1-4 family residential	$ 673	$ 680	$ 104
Multi-family	—	—	—
Commercial	—	—	—
Consumer	—	—	—
Total	$ 673	$ 680	$ 104
Balance at June 30, 2022	$ 995	$ 1,205	$ 104
December 31, 2021			
With no related allowance recorded			
1-4 family residential	$ 355	$ 595	$ —
Multi-family	—	—	—
Commercial	—	—	—
Consumer	—	—	—
Total	$ 355	$ 595	$ —
With a related allowance recorded			
1-4 family residential	$ 781	$ 797	$ 118
Multi-family	—	—	—
Commercial	—	—	—
Consumer	—	—	—
Total	$ 781	$ 797	$ 118
Balance at December 31, 2021	$ 1,136	$ 1,392	$ 118

The average recorded investment and interest income recognized for the loans individually evaluated for impairment for the three months ended June 30, 2022 and 2021, were as follows:

	Average recorded investment		Interest income recognized	
	(Dollars in thousands)			
June 30, 2022				
With no related allowance recorded				
1-4 family residential	$	324	$	7
Multi-family		—		—
Commercial		—		—
Consumer		—		—
Total	$	324	$	7
With a related allowance recorded				
1-4 family residential	$	677	$	8
Multi-family		—		—
Commercial		—		—
Consumer		—		—
Total	$	677	$	8
Balance for the Three Months Ended June 30, 2022	$	1,001	$	15
June 30, 2021				
With no related allowance recorded				
1-4 family residential	$	1,339	$	18
Multi-family		—		—
Commercial		—		—
Consumer		—		—
Total	$	1,339	$	18
With a related allowance recorded				
1-4 family residential	$	984	$	10
Multi-family		—		—
Commercial		—		—
Consumer		—		—
Total	$	984	$	10
Balance for the Three Months Ended June 30, 2021	$	2,323	$	28

The average recorded investment and interest income recognized for the loans individually evaluated for impairment for the six months ended June 30, 2022 and 2021, were as follows:

	Average recorded investment		Interest income recognized	
	(Dollars in thousands)			
June 30, 2022				
With no related allowance recorded				
1-4 family residential	$	326	$	13
Multi-family		—		—
Commercial		—		—
Consumer		—		—
Total	$	326	$	13
With a related allowance recorded				
1-4 family residential	$	680	$	15
Multi-family		—		—
Commercial		—		—
Consumer		—		—
Total	$	680	$	15
Balance for the six months ended June 30, 2022	$	1,006	$	28
June 30, 2021				
With no related allowance recorded				
1-4 family residential	$	1,424	$	37
Multi-family		—		—
Commercial		—		—
Consumer		—		—
Total	$	1,424	$	37
With a related allowance recorded				
1-4 family residential	$	990	$	22
Multi-family		—		—
Commercial		—		—
Consumer		—		—
Total	$	990	$	22
Balance for the six months ended June 30, 2021	$	2,414	$	59

Troubled debt restructurings provide for modifications to repayment terms; more specifically, modifications to loan interest rates. Management performs an impairment analysis at the time of restructuring and periodically thereafter. Any reserve required is recorded through a provision to the allowance for loan losses.

There were no new troubled debt restructurings during the three and six months ended months ended June 30, 2022 or 2021. In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed into law. Among other things, the CARES Act suspended the requirements related to accounting for TDRs for certain loan modifications related to the COVID-19 pandemic.

The Bank has minimal direct exposure to consumer, commercial, and other small businesses that may be negatively impacted by COVID-19, but management has analyzed and increased the qualitative factors in these and other loan categories for incurred, but not yet identified loan losses attributable to COVID-19. As of June 30, 2022, management did not see significant disruption with existing customers related to COVID-19. However, during the years ended December 31, 2020 and 2021, management did grant customer requests to defer payments on 50 loans with unpaid balances of $9.7 million. As of June 30, 2022, all COVID-19 loan modifications have returned to repayment. Management has also assisted small businesses that could benefit from the CARES Act, particularly in the SBA's Paycheck Protection Program ("PPP"). As of June 30, 2022, all PPP loans have been forgiven by the SBA.

Note 4: Other Real Estate Owned

At June 30, 2022 and December 31, 2021, the balance of other real estate owned was $0 and $68,000, respectively.

The following table represents the movement in OREO during the periods presented.

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Transfer of loan to OREO	$ —	$ —	$ —	$ 62
Sale of OREO	—	—	—	—
Gross gain realized on transfer to OREO	—	—	—	6
Gross gain realized on sale of OREO	—	—	—	—

There were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process as of June 30, 2022 and there were $60,000 as of December 31, 2021.

Note 5: Deposits

As of June 30, 2022, for years below ended June 30, the scheduled maturities of time deposits are as follows:

For the 12 months ended June 30,	Amount
	(Dollars in thousands)
2023	$ 34,183
2024	13,936
2025	7,283
2026	3,379
2027 and beyond	2,661
Total	$ 61,442

In the normal course of business, deposit accounts are held by directors and executive officers of the Bank (related parties). The terms for these accounts, including interest rates, fees, and other attributes, are similar to those prevailing for comparable transactions with other customers and do not involve more than the normal level of risk associated with deposit accounts. At June 30, 2022 and December 31, 2021, total deposits held by directors and officers of the Bank were $760,000 and $1.1 million, respectively.

Note 6: Other Borrowings

On May 12, 2022, the Bank repaid the existing FHLB advance totaling $5.0 million with a 0% interest rate that was due on May 21, 2022. Additionally, on May 21, 2021, the Bank repaid the existing non-interest bearing FHLB advance totaling $4.0 million that was due on May 24, 2021. The Bank is eligible to borrow up to a total of $61.8 million and $60.8 million at June 30, 2022 and December 31, 2021, respectively, which is collateralized by $78.0 million and $76.8 million of first mortgage loans under a blanket lien arrangement at June 30, 2022 and December 31, 2021, respectively.

Note 7: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

An asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2022 or December 31, 2021.

Available-for-Sale Securities (Recurring)
Where quoted market prices are available in an active market, securities such as U.S. Treasuries, would be classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities would be classified within Level 3 of the hierarchy.

Impaired Loans (Nonrecurring)
Impaired loans are recorded at fair value on a nonrecurring basis. The fair value of loans is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. Impaired loans that are valued based on the present value of future cash flows are not considered in the fair value hierarchy.

The following table presents the Bank's assets that are measured at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2022 and December 31, 2021:

	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
		(Dollars in thousands)		
June 30, 2022				
Securities Available-for-sale				
U.S. Treasury Notes	$ 7,430	$ 7,430	$ —	$ —
U.S. government agency obligations	18,061	—	18,061	—
Municipal obligations	20,230	—	20,230	—
Mortgage-backed residential obligations	40,416	—	40,416	—
Collateralized mortgage obligations	35,110	—	35,110	—
Total	$ 121,247	$ 7,430	$ 113,817	$ —
December 31, 2021				
Securities Available-for-sale				
U.S. government agency obligations	$ 10,053	$ —	$ 10,053	$ —
Municipal obligations	18,000	—	18,000	—
Mortgage-backed residential obligations	42,148	—	42,148	—
Collateralized mortgage obligations	30,749	—	30,749	—
Total	$ 100,950	$ —	$ 100,950	$ —

The Bank may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis and the valuation techniques used to measure nonrecurring Level 3 fair value measurements as of June 30, 2022 and December 31, 2021, were as follows:

	Fair Value	Level 1	Level 2	Level 3
		(Dollars in thousands)		
June 30, 2022				
Impaired loans	$ 569	—	—	$ 569
December 31, 2021				
Impaired loans	$ 663	—	—	$ 663

There were no gains or losses recognized on assets measured on a nonrecurring basis during the six months ended June 30, 2022 or 2021. The numerical range of unobservable inputs for the valuation assumptions used in calculating the amounts disclosed above is not meaningful to this presentation.

Note 8: Fair Value of Financial Instruments

Financial instruments are classified within the fair value hierarchy using the methodologies described in Note 13 – Fair Value Measurements. The following disclosures include financial instruments that are not carried at fair value on the Consolidated Balance Sheets.

Certain financial instruments generally expose the Company to limited credit risk and have no stated maturities or have short-term maturities and carry interest rates that approximate market. The carrying value of these financial instruments assumes to approximate the fair value of these instruments. These instruments include cash and cash equivalents, non-interest bearing deposit accounts, Time deposits with other financial institutions, FHLB stock, escrow deposits, FHLB Advances and accrued interest receivable and payable.

The carrying amounts and estimated fair values by fair value hierarchy of certain financial instruments are as follows:

	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
			(Dollars in thousands)		
June 30, 2022					
Financial assets:					
Loans, net	$ 95,378	$ —	$ 96,444	$ 769	$ 97,213
Financial liabilities:					
Interest-bearing deposits	$ 173,420	$ —	$ 155,984	$ —	$ 155,984
December 31, 2021					
Financial assets:					
Loans, net	$ 96,534	$ —	$ 95,612	$ 779	$ 96,391
Loans held for sale	104	—	112	—	112
Financial liabilities:					
Interest-bearing deposits	$ 186,531	$ —	$ 181,564	$ —	$ 181,564

Note 9: Capital Ratios

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 actions by regulators that, if undertaken, could have a direct material effect on the Bank's 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 the Bank's assets, liabilities and certain off-balance-sheet items as calculated under accounting principles generally accepted in the United States of America, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital to risk-weighted assets, common equity Tier 1 capital to total risk-weighted assets and of Tier I capital to average assets, as such individual components and calculations are defined by related standards.

As of June 30, 2022 the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification which management believes have changed the Bank's category. On November 13, 2019, the federal regulators finalized and adopted a regulatory capital rule establishing a new community bank leverage ratio ("CBLR"), which became effective on January 1, 2020. The intent of CBLR is to provide a simple alternative measure of capital adequacy for electing qualifying depository institutions and depository institution holding companies, as directed under the Economic Growth, Relief, and Consumer Protection Act. Under CBLR, if a qualifying depository institution or depository institution holding company elects to use such measure, such institution or holding company will be considered well capitalized if its ratio of Tier 1 capital to average total consolidated assets (i.e., leverage ratio) exceeds 9% subject to a limited two quarter grace period, during which the leverage ratio cannot go 100 basis points below the then applicable threshold, and will not be required to calculate and report risk-based capital ratios. In April 2020, under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the 9% leverage ratio threshold was temporarily reduced to 8% in response to the COVID-19 pandemic. The threshold increased to 8.5% in 2021 and returned to 9% in 2022. The Bank elected to begin using CBLR for the first quarter of 2020. Management believes, as of June 30, 2022, that the Bank met all capital adequacy requirements to which it was subject.

The Bank's actual capital amounts and ratios as of June 30, 2022 and December 31, 2021, are presented below:

	Actual		Minimum Required to be Well-Capitalized (1)	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
As of June 30, 2022				
Tier 1 capital (to Average Assets)	$ 65,077	23.26%	$ 25,179	>9%
As of December 31,2021				
Tier 1 capital (to Average Assets)	$ 44,262	16.11%	$ 23,349	>8.5%

(1) As defined by regulatory agencies. Failure to exceed the leverage ratio thresholds required under CBLR in the future, subject to any applicable grace period, would require the Bank to return to the risk-based capital ratio thresholds previously utilized under the fully phased-in Basel III Capital Rules to determine capital adequacy.

Note 10: Commitments and Contingencies

In the ordinary course of business, the Bank has various commitments and contingent liabilities that are not reflected in the accompanying financial statements. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial position of the Bank.

Financial Instruments

The Bank does not engage in the use of interest rate swaps or futures, forwards or option contracts.

At June 30, 2022 and December 31, 2021, unused lines of credit and outstanding commitments to originate loans were as follows:

	June 30, 2022	December 31, 2021
	(Dollars in thousands)	
Unused line of credit	$ 3,559	$ 4,001
Commitments to originate loans	914	219
Total commitments	$ 4,473	$ 4,220

Concentrations of Credit Risk

The Bank generally originates single-family residential loans within its primary lending area which is Waukegan, Illinois and the surrounding area. The Bank's underwriting policies require such loans to be made at approximately 80% loan-to-value, based upon appraised values, unless private mortgage insurance is obtained, or the loan is guaranteed by the government. These loans are secured by the underlying properties.

The Bank maintains its cash in deposit accounts at the Federal Reserve Bank or other institutions, the balances of which may exceed federally insured limits. The Bank has not experienced any losses in such accounts. The Bank believes it is not exposed to any significant credit risk on cash and cash equivalents.

Interest Rate Risk

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, fair values of its financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the overall interest rate risk.

Litigation

Due to the nature of its business activities, the Bank is at times subject to legal action which arises in the normal course of business. In the opinion of management, the ultimate resolution of these matters is not expected to have a material effect on the financial position or results of operations of the Bank.

Note 11: Earnings Per Share

Basic EPS represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares (such as stock options) were exercised or converted into additional common shares that should then share in the earnings of the entity. Diluted EPS is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares outstanding for the period, plus the effect of potential dilutive common share equivalents.

There were no securities or other contracts that had a dilutive effect during the three and six months ended June 30, 2022, and therefore the weighted-average common shares oustanding used to calculate both basic and diluted EPS are the same. Shares held by the Employee Stock Ownership Plan ("ESOP") that have not been allocated to employees in accordance with the terms of the ESOP, referred to as "unallocated ESOP shares", are not deemed outstanding for EPS calculations. EPS data is not applicable for the three and six months ended June 30, 2021 as the Company had no shares outstanding.

	Three Months Ended June 30,	Six months ended June 30,
	2022	2022
	(Income in thousands)	
Net income (loss) applicable to common shares	$ 149	$ (130)
Average number of common shares outstanding	5,397,959	4,861,145
Less: Average unallocated ESOP shares	426,029	385,231
Average number of common shares oustanding used to calculate basic earnings per common share	4,971,930	4,475,914
Earnings (loss) per common share basic and diluted	$ 0.03	$ (0.03)

All unallocated ESOP shares have been excluded from the calculation of basic and diluted EPS.

Note 12: ESOP

Employees participate in an Employee Stock Ownership Plan ("ESOP"). The ESOP borrowed funds from the Company to purchase 431,836 shares of stock at $10 per share. The Bank makes discretionary contributions to the ESOP, as well as paying dividends on unallocated shares to the ESOP, and the ESOP uses funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation. Participants receive the shares at the end of employment. Dividends on allocated shares increase participants accounts.

There were no contributions to the ESOP during the first six months of 2022, as the initial annual loan payment will be made during the fourth quarter. Expense recorded was $54,000 and $103,000 during the three and six months ended months ended June 30, 2022, and is recognized over the service period.

Shares held by the ESOP were as follows:

	As of June 30, 2022
	2022
	(Dollars in thousands)
Shares committed for allocation	8,640
Unallocated	423,196
Total ESOP shares	431,836
Fair value of unearned shares at June 30, 2022	$ 4,731

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section is intended to assist in the understanding of our financial performance through a discussion of our financial condition as of June 30, 2022 and as compared to our financial condition as of December 31, 2021, and our results of operations for the three and six months ended months ended June 30, 2022 and 2021. This section should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto appearing in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Forward-Looking Statements

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

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

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

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

- general economic conditions, either nationally or in our market areas, that are different than expected
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- major catastrophes such as tornadoes, floods or other natural disasters, the related disruption to local, regional and global economic activity and financial markets, and the impact that any of the foregoing may have on us and our customers and other constituencies;
- further data processing and other technological changes that may be more difficult or expensive than expected;
- success or consummation of new business initiatives may be more difficult or expensive than expected;
- the inability of third-party service providers to perform;
- 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 continue to implement our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to manage market risk, credit risk and operational risk in the current economic conditions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- 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 hire and retain key employees; and
- our compensation expense associated with equity allocated or awarded to our employees.

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

General

On January 18, 2022, the NSTS Bancorp, Inc. ("the Company") became the holding company for North Shore Trust and Savings ("the Bank") when North Shore MHC completed its conversion into the stock holding company form of organization. In connection with the conversion, the Company sold 5,290,000 shares of common stock at a price of $10 per share, for gross proceeds of $52.9 million. The Company also contributed 107,959 shares of common stock and $150,000 in cash to North Shore Trust and Savings Charitable Foundation, Inc. Shares of the Company's common stock began trading on January 19, 2022 on the Nasdaq Capital Market under the trading symbol "NSTS."

NSTS Bancorp, Inc.

NSTS Bancorp, Inc. is a Delaware corporation which was incorporated in September 2021. As a savings and loan holding company, NSTS Bancorp, Inc. is regulated by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). The Company's primary business activities relate to owning all of the outstanding shares of capital stock of the Bank.

The unaudited financial statements and other financial information contained in this Quarterly Report on Form 10-Q should be read in conjunction with North Shore MHC's Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

North Shore Trust and Savings

North Shore Trust and Savings, a federally-chartered stock savings institution, was established in 1921 as North Shore Building and Loan, an Illinois-chartered institution. Since its inception, the Bank has operated as a traditional savings institution focused primarily on serving the banking needs of customers in our market area of Lake County, Illinois and adjacent communities. We operate from our headquarters and main banking office in Waukegan, Illinois, as well as two additional full-service branch offices located in Waukegan and Lindenhurst, Illinois, respectively. We have a loan production office in Chicago, Illinois. Our primary business activity is attracting deposits from the general public and using those funds to originate one- to four-family residential mortgage loans and purchase investments. We are subject to comprehensive regulation and examination by the Office of the Comptroller of the Currency (the "OCC").

Our Business and Franchise

For 100 years, we have served Lake County, Illinois and the surrounding communities. We have established deep ties to the community and developed customer relationships which have spanned generations. We pride ourselves in matching our products and services to the needs of the community.

Our principal business consists of originating loans for one- to four-family residential properties, multi-family and non-owner occupied commercial real estate loans, and to a lesser extent home equity loans and lines of credit, construction loans, and other consumer loans in the market areas surrounding our branch footprint. We also established a loan production office in the Roscoe Village neighborhood of Chicago, Illinois in 2016 to originate loans outside of our branch network in a more densely populated metropolitan area, which we believe benefits us geographically. We attract retail deposits from the general public in the areas surrounding our main office and branches, offering a wide variety of deposit products. We also invest in investment securities. Our revenues are derived primarily from interest on loans, noninterest income from the sale of one- to four-family residential mortgage loans in the secondary market and interest on investments. Our primary sources of funds are deposits, and principal and interest payments on loans and securities.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated unaudited interim financial statements for the three and six months ended months ended June 30, 2022, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results could differ from these estimates. Our significant accounting policies are discussed in detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. There have been no material changes to our critical accounting policies as compared to the critical accounting policies described in the Annual Report on Form 10-K.

COVID-19

In light of the recent events surrounding the COVID-19 pandemic, we are continually assessing the effects of the pandemic on our employees, customers and communities. In March 2020, the CARES Act was enacted. The CARES Act contains many provisions related to banking, lending, mortgage forbearance and taxation. We worked diligently to help support our customers through the PPP, loan modifications and loan deferrals. During the years ended December 31, 2020 and 2021, we had funded 40 SBA PPP loans totaling $1.3 million to existing customers and key prospects located primarily in our markets. As of June 30, 2022, all PPP loans were forgiven by the SBA. In addition, during the years ended December 31, 2021 and 2020, we granted loan modifications under the CARES Act generally in the form of three-month deferrals of principal payments and a three-month extension of the maturity date. We handle loan modification requests on a case-by-case basis considering the effects of the COVID-19 pandemic and the related economic slowdown on our customers and their current and projected cash flows through the terms of their respective loans. We believe the customer interaction during this time provided us with an opportunity to broaden and deepen our customer relationships while benefiting the local communities we serve. In total we modified 50 loans with principal balances totaling $9.7 million. As of June 30, 2022, all COVID-19 loan modifications have returned to repayment status.

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law on March 27, 2020 and the subsequent extension of the CARES Act, the Bank was eligible for a refundable employee retention credit subject to certain criteria. The Bank qualified for the tax credit for the quarters ended June 30, 2021 and September 30, 2021 under the CARES Act. The Bank utilized the gross receipts method of calculating eligibility. Based on the eligibility, the tax credit is equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee is $10,000 of qualified wages per quarter.

The Employee Retention Credit was recorded during the second quarter of 2022, when the Bank determined they were eligible. The credit is recorded as other non-interest income and offsets $503,000 of salaries and employee benefits previously recorded as an expense during 2021. As of June 30, 2022 cannot reasonably estimate when it will receive the refunds. The CARES Act and related Employee Retention Credit was terminated as of September 30, 2021, and therefore the Company does not expect to file for any additional refunds.

Overview

This discussion is intended to focus on certain financial information regarding our consolidated company and may not contain all the information that is important to the reader. The purpose of this discussion is to provide the reader with a more thorough understanding of our financial statements. As such, this discussion should be read carefully and in conjunction with the consolidated financial statements and accompanying notes contained elsewhere in this report.

Our results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on our loan and investment portfolios and interest expense on deposits and borrowings. Our net interest income is largely determined by our net interest spread, which is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities, and the relative amounts of interest-earning assets and interest-bearing liabilities. Results of operations are also affected by our provisions for loan losses, fee income and other noninterest income and noninterest expense. Noninterest expense principally consists of compensation, office occupancy and equipment expense, data processing, advertising and business promotion and other expenses. We expect that our noninterest expenses will increase as we grow and expand our operations. In addition, our compensation expense will increase due to the new stock benefit plans we intend to implement. Our results of operations and financial condition are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, the impact of the COVID-19 pandemic, changes in accounting guidance, government policies and actions of regulatory authorities.

Average Balances, Net Interest Income, and Yields Earned and Rates Paid. The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. All average balances are based on daily balances. The table also reflects the yields on the Company's interest-earning assets and costs of interest-bearing liabilities for the periods shown.

	For the Three Months Ended June 30,					
	2022			2021		
	Average Outstanding Balance	Interest	Average Yield/ Rate	Average Outstanding Balance	Interest	Average Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans, net	$ 96,491	$ 883	3.66%	$ 98,653	$ 876	3.55%
Federal funds sold and interest-bearing deposits in other banks	43,561	73	0.67%	22,528	5	0.09%
Time deposits with other financial institutions	3,801	6	0.63%	7,305	16	0.88%
Securities available for sale	115,859	542	1.87%	94,908	349	1.47%
FHLB of Chicago stock	550	3	2.18%	548	3	2.19%
Total interest-earning assets	260,262	$ 1,507	2.32%	223,942	$ 1,249	2.23%
Noninterest-earning assets	19,513			15,881		
Total assets	$ 279,775			$ 239,823		
Interest-bearing liabilities:						
Interest-bearing demand	$ 17,496	$ 2	0.05%	$ 16,986	$ 2	0.05%
Money market	45,076	23	0.20%	46,340	24	0.21%
Savings	48,451	18	0.15%	44,997	17	0.15%
Time deposits	62,752	148	0.94%	64,426	194	1.20%
Total interest-bearing deposits	$ 173,775	$ 191	0.44%	$ 172,749	$ 237	0.55%
Other borrowings(1)	2,857	—	—%	4,451	—	—%
Total interest-bearing liabilities	176,632	$ 191	0.43%	177,200	$ 237	0.53%
Noninterest-bearing liabilities	18,636			16,856		
Total liabilities	$ 195,268			$ 194,056		
Equity	84,507			45,767		
Total liabilities and equity	$ 279,775			$ 239,823		
Net interest income		$ 1,316			$ 1,012	
Interest rate spread(2)			1.88%			1.70%
Net interest-earning assets(3)	$ 83,630			$ 46,742		
Net interest margin(4)			2.02%			1.81%
Average interest-earning assets to average-interest bearing liabilities	147.35%			126.38%		

	For the Six Months Ended June 30,					
	2022			2021		
	Average Outstanding Balance	Interest	Average Yield/ Rate	Average Outstanding Balance	Interest	Average Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans, net	$ 96,713	$ 1,726	3.57%	$ 98,201	$ 1,809	3.68%
Federal funds sold and interest-bearing deposits in other banks	58,881	102	0.35%	25,487	10	0.08%
Time deposits with other financial institutions	3,590	11	0.61%	8,894	48	1.08%
Securities available for sale	111,112	956	1.72%	91,023	699	1.54%
FHLB stock	550	7	2.55%	530	6	2.26%
Total interest-earning assets	270,846	$ 2,802	2.07%	224,135	2,572	2.30%
Noninterest-earning assets	20,423			16,604		
Total assets	$ 291,269			$ 240,739		
Interest-bearing liabilities:						
Interest-bearing demand	$ 17,464	$ 4	0.05%	$ 16,863	3	0.04%
Money market	45,372	45	0.20%	47,419	48	0.20%
Savings	48,649	36	0.15%	44,016	33	0.15%
Time deposits	64,564	297	0.92%	65,453	407	1.24%
Total interest-bearing deposits	$ 176,049	$ 382	0.43%	$ 173,751	$ 491	0.57%
Other borrowings(1)	3,923	—	—%	4,227	—	—%
Total interest-bearing liabilities	179,972	$ 382	0.42%	177,978	491	0.55%
Noninterest-bearing liabilities	28,765			16,533		
Total liabilities	$ 208,737			$ 194,511		
Equity	82,532			46,228		
Total liabilities and equity	$ 291,269			$ 240,739		
Net interest income		$ 2,420			2,081	
Interest rate spread(2)			1.65%			1.75%
Net interest-earning assets(3)	$ 90,874			$ 46,157		
Net interest margin(4)			1.79%			1.86%
Average interest-earning assets to average-interest bearing liabilities	150.49%			125.93%		

(1) Other borrowings consists of 0% interest rate FHLB advances.
(2) Equals the difference between the yield on average earning-assets and the cost of average interest-bearing liabilities.
(3) Equals total interest-earning assets less total interest-bearing liabilities.
(4) Equals net interest income divided by average interest-earning assets.

COMPARISON OF OPERATING RESULTS FOR THE THREE AND SIX MONTHS ENDED MONTHS ENDED JUNE 30, 2022 AND 2021

General. For the three months ended June 30, 2022, the Company had net income of $149,000, compared to net income of $67,000 for the same period ended June 30, 2021. Additionally, for the six months ended June 30, 2022, the Company had a net loss of $130,000, representing an increase in the net loss of $116,000, from a net loss of $14,000 for the same period ended June 30, 2021. The changes in net income (loss) are primarily the result of the recognition of the Employee Retention Credit during the second quarter of 2022, offset by a decrease in other noninterest income categories and an increase of noninterest expenses which are expected to reoccur in future periods and are the result of additional expenses related to being a public company.

Net Interest Income. Net interest income was $1.3 million and $1.0 million for the three months ended June 30, 2022 and 2021. Net interest income was $2.4 million and $2.1 million for the six months ended June 30, 2022 and 2021, respectively.

The average yield on total interest-earning assets increased 9 basis points in the second quarter of 2022 compared to 2021. This increase was driven by an increase of 11 basis points in the average yield on loans, net, to 3.66%, an increase of 40 basis points for the average yield on investments, net, to 1.87%, and an increase in the average yield on interest-bearing deposits in other banks of 58 basis points, to 0.67%. During the three months ended June 30, 2022, two commercial loans totaling $1.8 million paid off in full with interest penalties, resulting in an increase to the average yield on loans, net. Management continues to deploy funds into the investments portfolio, helping to drive the increase in the average yield earned on investments. The average yield on total interest-earning assets decreased 23 basis points in the first six months of 2022 compared to 2021.

During 2021, borrowers continued to take advantage of the lower interest rate environment and refinanced their mortgages, resulting in a decrease of the average yield on loans. The decrease was partially offset by a change in our asset mix, in which management invested available cash in securities available for sale to achieve a higher yield.

The cost of interest-bearing liabilities decreased 10 basis points for the three months ended June 30, 2022 from the three months ended June 30, 2021, and decreased 13 basis points for the six months ended June 30, 2022 from the six months ended June 30, 2021. The net decrease in our funding costs was primarily driven by a decrease in the average yield of time deposits. During the first quarter of 2022, subsequent to the conversion closing, certain customers withdrew their funds held in time deposits prior to the maturity of these deposits. Upon the withdrawal of these funds, the customers were charged an interest penalty which resulted in a lower overall funding cost during the quarter.

Provision for Loan Losses. The allowance for loan losses is established through a provision for loan losses charged to earnings as losses are estimated to have occurred in our loan portfolio. Loan losses are charged against the allowance when management believes the collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

A loan is considered impaired when, based on current information or events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. When a loan is impaired, the measurement of such impairment is based upon the fair value of the collateral of the loan. If the fair value of the collateral is less than the recorded investment in the loan, we will recognize the impairment by creating a valuation allowance with a corresponding charge against earnings.

An allowance is also established for uncollectible interest on loans classified as substandard. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent that cash payments are received. When, in management's judgment, the borrower's ability to make interest and principal payments is back to normal, the loan is returned to accrual status.

During the three and six months ended June 30, 2022, a reversal of the provision was recorded for $16,000, compared to a provision expense of $17,000 during the three and six months ended June 30, 2021. The reversal of the provision in 2022 was primarily the result of a decrease in the loan portfolio balance during the six months ended June 30, 2022. Net recoveries of $6,000 were recorded during the six months ended June 30, 2022, compared to net charge-offs of $95,000 during the same period ended June 30, 2021. Additionally, during the three months ended June 30, 2022, there were no recoveries or charge-offs recorded. During the three months ended June 30, 2021, charge-offs of $99,000 and recoveries of $2,000 were recorded, resulting in a net charge-offs of $97,000.

The establishment of the allowance for loan losses is significantly affected by uncertainties and management judgment and there is a likelihood that different amounts would be reported under different conditions or assumptions. Various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to make additional provisions for estimated loan losses based upon judgments different from those of management.

Noninterest Income. The following table shows the components of noninterest income for the periods presented.

Noninterest income:	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
	(Dollars in thousands)			
Gain on sale of mortgage loans	$ 38	$ 81	$ 69	$ 245
Rental income on office building	10	10	21	21
Service charges on deposits	75	74	146	141
Increase in cash surrender value of BOLI	44	44	87	88
Other	522	66	554	103
Total noninterest income	$ 689	$ 275	$ 877	$ 598

Noninterest income increased $414,000, or 150.5%, to $689,000 for the quarter ended June 30, 2022 compared to $275,000 for the quarter ended June 30, 2021. The primary driver of the increase was the recognition of the Employee Retention Credit of $503,000 during the second quarter of 2022. This increase was offset by a reduction in the volume of mortgage loans sold and the resulting gain on the sale of mortgage loans. During the three months ended June 30, 2022, we sold $2.1 million in loans compared to $4.8 million during the three months ended June 30, 2021. The decrease in sale of mortgage loans was partially due to the decision to originate a higher percentage of loans for the portfolio, as well as an overall decrease in total loans originated during the period.

Consistent with the increase in second quarter of 2022, noninterest income increased $279,000, or 46.7%, to $877,000 for the six months ended June 30, 2022 compared to $598,000 for the same period ended June 30, 2021. The increase is due to the recognition of the Employee Retention Credit during the second quarter of 2022, offset by a reduction in the volume of mortgage loans sold and the resulting gain on the sale of mortgage loans. During the six months ended June 30, 2022, we sold $5.8 million in loans compared to $13.9 million during the six months ended June 30, 2021. The decrease in sale of mortgage loans was partially due to the decision to originate a higher percentage of loans for the portfolio, as well as an overall decrease in total loans originated during the period.

Noninterest Expense. The following table shows the components of noninterest expense for the periods presented.

Noninterest expense:	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
	(Dollars in thousands)			
Salaries and employee benefits	$ 1,057	$ 822	$ 2,010	$ 1,691
Equipment and occupancy	161	156	342	341
Data processing	154	154	302	328
Professional services	137	47	270	112
Advertising	12	14	38	38
Supervisory fees and assessments	37	31	78	63
Loan expenses	20	31	49	72
Deposit expenses	54	50	88	95
Foreclosure and other real estate owned expenses	—	8	—	8
Other	200	83	302	165
Total noninterest expense	$ 1,832	$ 1,396	$ 3,479	$ 2,913

Noninterest expense increased $436,000, or 31.2%, to $1.8 million for the three months ended June 30, 2022 compared to $1.4 million for the three months ended June 30, 2021. The primary drivers for the increase in noninterest expense are salaries and employee benefits and professional services expenses. Salaries and employee benefits increased $235,000, or 28.6% as a result of an increase in the number of full-time equivalent employees during the period to 38 employees as of June 30, 2022 compared to 35 employees as of June 30, 2021, as the Bank continues to invest in hiring high performing individuals and growing the strength of our lending team. Additionally, the Bank entered into an Employee Stock Ownership Plan at the closing of the conversion, which resulted in additional ESOP related expenses of $49,000 during the three months ended June 30, 2022. Professional service fees increased $90,000, or 191.5%, to $137,000 during the three months ended June 30, 2022 compared to $47,000 for the three months ended June 30, 2021. This increase is the results of additional expenses associated with being a public company and are expected to reoccur in future periods. Other noninterest expense increased $117,000, or 141.0%, to $200,000 during the three months ended June 30, 2022 compared to $83,000 for the three months ended June 30, 2021, primarily due to additional expenses associated with the filing for the Employee Retention Credit.

Noninterest expense increased $566,000, or 19.4%, to $3.5 million for the six months ended June 30, 2022 compared to $2.9 million for the six months ended June 30, 2021. The primary drivers for the increase in noninterest expense are salaries and employee benefits and professional services expenses. Salaries and employee benefits increased $318,000, or 18.8% as a result of an increase in the number of full-time equivalent employees during the periods. Additionally, the Bank entered into an Employee Stock Ownership Plan at the closing of the conversion, which resulted in additional ESOP related expenses of $103,000 during the six months ended June 30, 2022. Professional service fees increased $158,000, or 141.1%, to $270,000 during the six months ended June 30, 2022 compared to $112,000 for the six months ended June 30, 2021. This increase is the result of additional expenses associated with being a public company and are expected to reoccur in future periods. Other noninterest expense increased $137,000, or 83.0%, to $302,000 during the six months ended June 30, 2022 compared to $165,000 for the six months ended June 30, 2021, primarily due to additional expenses associated with the filing for the Employee Retention Credit.

Provision for Income Tax Expense (Benefit). During the three months ended June 30, 2022, the Company recognized income tax expense of $40,000, compared to an income tax benefit of $193,000 during the same period ended June 30, 2021. The increase in expense is primarily due to the recognition of the Employee Retention Credit income during the second quarter of 2022. Income tax benefit decreased $201,000, or 84.8%, to $36,000 for the six months ended June 30, 2022 compared to $237,000 for the six months ended June 30, 2021, primarily due to the recognition of the Employee Retention Credit income during 2022.

COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2022 AND DECEMBER 31, 2021

	At June 30, 2022	At December 31, 2021
	(Dollars in thousands)	
Selected Consolidated Financial Condition Data:		
Cash and cash equivalents	$ 32,824	$ 121,611
Securities available for sale	121,247	100,950
FHLB stock	550	550
Loans receivable, net	95,378	96,534
Total assets	274,249	340,869
Total deposits	186,337	285,621
FHLB advances	—	5,000
Total equity	$ 83,512	$ 45,183

Total Assets. Total assets decreased $66.6 million, or 19.5%, to $274.2 million at June 30, 2022 compared to $340.9 million at December 31, 2021. The decrease was primarily the result of refunds issued due to the oversubscription of stock purchases related to the stock offering.

Cash and cash equivalents. The funds received as part of the conversion were primarily held in cash and cash equivalents at December 31, 2021, and excess funds were disbursed during the first quarter of 2022. The result of the disbursement resulted in a decrease in cash and cash equivalents during the period. Additionally, management began to deploy the remaining funds from the stock offering primarily in securities available for sale, resulting in a further decrease to the balance of cash and cash equivalents as of June 30, 2022, compared to December 31, 2021. The Bank continues to maintain levels of liquid assets deemed adequate by management.

Securities available for sale. Securities available for sale increased $20.3 million, or 20.1%, to $121.2 million at June 30, 2022 compared to $101.0 million at December 31, 2021. This increase was the result of management's efforts to reduce the cash and cash equivalents balance by investing in higher yielding assets. During the six months ended June 30, 2022, the Bank purchased $42.1 million in securities available for sale, which was partially offset by principal repayments and maturities of $10.4 million, an increase in the unrealized loss on available for sale securities of $10.9 million and amortization and accretion of premiums and discounts of $594,000. During the six months ended June 30, 2022, the Bank purchased U.S. Treasury Notes of $7.4 million, resulting in a slight adjustment to the mix of the securities available-for-sale as well as reducing the duration of the portfolio while maintaining a higher yielding portfolio.

Loans, net. Our loans, net, decreased by $1.2 million, or 1.2%, to $95.4 million at June 30, 2022 compared to $96.5 million at December 31, 2021. During the six months ended June 30, 2022, the Bank originated $8.2 million in loans held for investment. These originations were offset by loan repayments and maturities of $9.3 million. During the three months ended June 30, 2022 two large commercial loans paid off early, resulting in a decrease of the commercial loan balance of $1.8 million. At June 30, 2022, the allowance for loan losses was $769,000, a decrease of $10,000, or 1.3% compared to $779,000 at December 31, 2021. The decrease in the allowance for loan losses was a result of a decrease in the overall loan portfolio. During the six months ended June 30, 2022, the non-accrual balance decreased to $40,000, compared to $102,000 at December 31, 2021. One loan on non-accrual as of December 31, 2021 paid off during the second quarter of 2022. Additionally, one loan that moved to non-accrual during the first quarter of 2022 paid off during the second quarter of 2022. Our non-performing loans to total loans increased to 0.17% at June 30, 2022 compared to 0.15% at December 31, 2021.

Deposits. The decrease in total deposits of $99.3 million, or 34.8%, was primarily the result of refunds issued due to the oversubscription of stock purchases related to the stock offering and a dividend made to the Bank in the amount of half the net proceeds received as part of the conversion to a public company. As of December 31, 2021, prior to the conversion, the Company held a deposit account at the Bank of approximately $87.3 million. Subsequent to the conversion, the balance of the deposit account held at the Bank is eliminated during consolidation. Additionally, prior to September 30, 2021, the Bank received an increase in funds within the deposit accounts as individuals opened accounts to receive priority in purchasing stock as part of the offering. Subsequent to the conversion, approximately $10.0 million in funds remaining in those accounts were withdrawn by depositors. Majority of these funds were held in short-term time deposits and were subject to interest penalties upon withdrawal.

Other borrowings. During the six months ended June 30, 2022, the Bank repaid the 0% interest FHLB Advance of $5.0 million, resulting in no other borrowings as of June 30, 2022.

Total equity. Total equity increased $38.3 million, or 84.7%, to $83.5 million at June 30, 2022 compared to $45.2 million at December 31, 2021. The increase in total equity is the result of the net proceeds of the stock offering, less unallocated shares of the ESOP, offset by the increase in the unrealized loss on securities available for sale.

Asset Quality

The following table sets forth certain information with respect to our nonperforming assets. The decrease in nonaccrual loans was the result of one loan on non-accrual as of December 31, 2021 paid off during the second quarter of 2022. Additionally, one loan that moved to non-accrual during the first quarter of 2022 paid off during the second quarter of 2022.

	At June 30, 2022	At December 31, 2021
	(Dollars in thousands)	
Nonaccrual loans	$ 40	$ 102
Loans 90+ days past due and accruing	123	41
Total non-performing loans	163	143
Other real estate owned, net	—	—
Total non-performing assets	163	143
Restructured loans still accruing	920	1,035
Total non-performing assets and performing TDRs	$ 1,083	$ 1,178
Asset Quality Ratios: (1)		
Non-accrual loans as a percent of total loans outstanding	0.04%	0.11%
Non-performing assets as a percent of total assets(1)	0.06%	0.04%
Non-performing assets and TDRs as a percent of total assets(2)	0.39%	0.35%
Allowance for loan losses as a percent of total loans outstanding	0.81%	0.81%
Allowance for loan losses as a percent of non-performing loans(3)	471.78%	544.76%
Net charge-offs (recoveries) to average loans receivable	(0.01)%	0.07%

(1) Asset quality ratios and capital ratios are end of period ratios, except for net charge-offs to average loans receivable.
(2) Non-performing assets consist of non-performing loans and real estate owned. Non-performing loans consist of all loans 90 days or more past due. Real estate owned consists of real estate acquired through foreclosure, real estate acquired by acceptance of a deed-in-lieu of foreclosure.
(3) Non-performing loans consist of non-accrual loans and loans that are 90 or more days past due and still accruing.

The allowance for loan losses, as a percentage of total loans remained at 0.81% as of June 30, 2022 and December 31, 2021. The balance of allowance for loan losses decreased to $769,000 at June 30, 2022, primarily as a result of the decrease in total loans.

Liquidity and Capital Resources

The Bank maintains levels of liquid assets deemed adequate by management. We adjust our liquidity levels to fund deposit outflows, repay our borrowings, and to fund loan commitments. We also adjust liquidity, as appropriate, to meet asset and liability management objectives.

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 also have the ability to borrow from the FHLB of Chicago. At June 30, 2022, we had no outstanding in advances from the FHLB of Chicago and had the capacity to borrow approximately $61.8 million from the FHLB of Chicago.

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. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by operating activities was $1.7 million and $1.3 million for the six months ended June 30, 2022 and 2021, respectively. Net cash used in investing activities, which consists primarily of net change in loans receivable and net change in investment securities, was $31.3 million and $11.8 million for the six months ended June 30, 2022 and 2021, respectively, with the increase in cash used driven by the increase in securities available for sale purchased. Net cash used in financing activities, consisting primarily of the activity in deposit accounts and proceeds from the issuance of common stock, was $59.2 million and $1.0 for the six months ended June 30, 2022 and 2021, respectively.

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. Time deposits that are scheduled to mature in less than one year from June 30, 2022, totaled $34.2 million. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits will be retained. However, if a substantial portion of these deposits is not retained, we may utilize FHLB of Chicago advances or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

As of June 30, 2022, the Bank was well capitalized under the regulatory framework for prompt corrective action. During the year ended December 31, 2020, the Bank elected to begin using the CBLR. Under CBLR, if a qualifying depository institution or depository institution holding company elects to use such measure, such institution or holding company will be considered well capitalized if its ratio of Tier 1 capital to average total consolidated assets (i.e., leverage ratio) exceeds 9% in 2022 and 8.5% in 2021, subject to a limited two quarter grace period, during which the leverage ratio cannot go 100 basis points below the then applicable threshold, and will not be required to calculate and report risk-based capital ratios. North Shore Trust and Savings' Tier 1 capital to Average Assets was 23.26% and 16.11% at June 30, 2022 and December 31, 2021, respectively.

Off-Balance Sheet Arrangements. At June 30, 2022, we had $914,000 of outstanding commitments to originate loans. Our total letters and lines of credit and unused lines of credit totaled $3.6 million at June 30, 2022.

Commitments. The following table summarizes our outstanding commitments to originate loans and to advance additional amounts pursuant to outstanding letters of credit, lines of credit and undisbursed construction loans at June 30, 2022.

	Total Amounts Committed at June 30, 2022	Amount of Commitment Expiration – Per Period			
		To 1 Year	1-3 Years	4-5 Years	After 5 Years
		(Dollars in thousands)			
Unused line of credit	$ 3,559	$ 697	$ 639	$ 766	$ 1,457
Commitments to originate loans	914	914	—	—	—
Total commitments	$ 4,473	$ 1,611	$ 639	$ 766	$ 1,457

Contractual Cash Obligations. The following table summarizes our contractual cash obligations at June 30, 2022.

	Total at June 30, 2022	Payments Due By Period			
		To 1 Year	1-3 Years	4-5 Years	After 5 Years
		(Dollars in thousands)			
Time deposits	$ 61,442	$ 34,183	$ 21,219	$ 6,040	$ —
Total contractual obligations	$ 61,442	$ 34,183	$ 21,219	$ 6,040	$ —

Impact of Inflation and Changing Prices

The consolidated financial statements and the accompanying notes presented elsewhere in this document have been prepared in accordance with U.S. GAAP, which generally requires the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. Unlike most industrial companies, virtually all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Changes in Accounting Principles

The following ASU has been issued by the FASB but is not yet effective.

The FASB issued ASU No. 2016-13, *Financial Instruments— Credit Losses (Topic 326)*. The ASU introduces a new credit loss model, the current expected credit loss model ("CECL"), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk.

The CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities, and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models, which generally require that a loss be incurred before it is recognized.

The CECL model represents a significant change from existing practice and may result in material changes to the Bank's accounting for financial instruments. The Bank is evaluating the effect ASU 2016-13 will have on its consolidated financial statements and related disclosures. The impact of the ASU will depend upon the state of the economy, and the nature of the Bank's portfolios at the date of adoption. The new standard is effective January 2023 for emerging growth companies.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to provide assurance that the information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that, as of June 30, 2022, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company. is in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to the Company's management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not presently involved in any legal proceedings of a material nature. From time to time, we are subject to various legal actions arising in the normal course of our business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of Steven G. Lear, President and Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of Carissa H. Schoolcraft, Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Stephen G. Lear, President and Chief Executive Officer, and Carissa H. Schoolcraft, Chief Financial Officer*
101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

*The certification attached as Exhibit 32.1 to this quarterly report on Form 10-Q is “furnished” to the Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed “filed” by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

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

NSTS BANCORP, INC.

Dated: August 12, 2022

By: /s/ Stephen G. Lear
Stephen G. Lear
President and Chief Executive Officer
(Principal Executive Officer)

Dated: August 12, 2022

By: /s/ Carissa H. Schoolcraft
Carissa H. Schoolcraft
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

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

I, Stephen G. Lear, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NSTS Bancorp, Inc. (the "Registrant"):

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

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

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

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

(b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

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

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

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

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

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

Dated: August 12, 2022

/s/ Stephen G. Lear
Stephen G. Lear
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Carissa H. Schoolcraft, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NSTS Bancorp, Inc. (the “Registrant”):

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

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

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:

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

(b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

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

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

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

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

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

Dated: August 12, 2022	/s/ Carissa H. Schoolcraft
	Carissa H. Schoolcraft Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32.1

Certification of Principal Executive Officer and Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Stephen G. Lear, Chief Executive Officer of NSTS Bancorp, Inc. (the "Company") and Carissa H. Schoolcraft, Chief Financial Officer of the Company, each hereby certifies in his or her capacity as an officer of the Company that he or she has reviewed the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and that to the best of his or her knowledge:

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

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

Dated: August 12, 2022	By: /s/ Stephen G. Lear Stephen G. Lear President Chief Executive Officer (Principal Executive Officer)
Dated: August 12, 2022	By: /s/ Carissa H. Schoolcraft Carissa H. Schoolcraft Chief Financial Officer (Principal Financial and Accounting Officer)