

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 March 31, 2024

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

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

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

As of May 7, 2024, the Registrant had 5,310,553 shares of its common stock outstanding.

NSTS Bancorp, Inc.

Form 10Q

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Part I. Financial Information
Item 1. Consolidated Financial Statements

NSTS BANCORP, INC.
Consolidated Balance Sheets

	March 31, 2024	December 31,
	(unaudited)	2023
	(Dollars in thousands)	
Assets:		
Cash and due from banks	\$ 1,080	\$ 1,000
Interest-bearing bank deposits	35,280	30,388
Cash and cash equivalents	36,360	31,388
Time deposits with other financial institutions	1,991	1,991
Securities available for sale	79,799	82,135
Federal Home Loan Bank stock (FHLB)	550	550
Loans held for sale	1,286	380
Loans, net of unearned income	127,014	121,799
Allowance for credit losses on loans	(1,177)	(1,176)
Loans, net	125,837	120,623
Premises and equipment, net	5,227	5,285
Accrued interest receivable	841	758
Bank-owned life insurance (BOLI)	9,494	9,441
Other assets	4,179	4,225
Total assets	\$ 265,564	\$ 256,776
Liabilities:		
Deposits:		
Noninterest bearing	\$ 12,228	\$ 12,424
Interest-bearing		
Demand and NOW checking	15,872	15,346
Money market	31,651	32,027
Savings	42,154	41,774
Time deposits over \$250,000	15,043	9,975
Other time deposits	61,099	57,280
Total deposits	178,047	168,826
Escrow deposits	2,081	1,382
Other borrowings	5,000	5,000
Accrued expenses and other liabilities	3,474	4,023
Total liabilities	\$ 188,602	\$ 179,231
Stockholders' equity:		
Common Stock (\$0.01 par value; 10,000,000 shares authorized; 5,315,261 shares outstanding at March 31, 2024 and December 31, 2023)	56	56
Treasury Stock, at cost (269,898 shares at March 31, 2024 and December 31, 2023)	(2,381)	(2,381)
Additional paid-in capital	51,080	50,920
Retained earnings	40,809	41,055
Unallocated common shares held by ESOP	(3,829)	(3,882)
Accumulated other comprehensive loss, net	(8,773)	(8,223)
Total stockholders' equity	76,962	77,545
Total liabilities and stockholders' equity	\$ 265,564	\$ 256,776

See accompanying notes to consolidated unaudited financial statements

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

	For the three months ended March 31,	
	2024	2023
	(Dollars in thousands)	
Interest income:		
Loans, including fees	\$ 1,475	\$ 1,018
Securities		
Taxable	418	658
Tax-exempt	63	102
Federal funds sold and other	417	52
Time deposits with other financial institutions	23	24
FHLB Stock	9	4
Total interest income	2,405	1,858
Interest expense:		
Deposits	640	221
Other borrowings	60	—
Total interest expense	700	221
Net interest income	1,705	1,637
Reversal of provision for credit losses	(1)	(28)
Net interest income after reversal of provision for credit losses	1,706	1,665
Noninterest income:		
Gain on sale of mortgage loans	156	11
Rental income on office building	16	16
Service charges on deposits	61	64
Increase in cash surrender value of BOLI	53	46
Other non-interest income	26	10
Total noninterest income	312	147
Noninterest expense:		
Salaries and employee benefits	1,374	928
Equipment and occupancy	214	166
Data processing	195	161
Professional services	111	121
Advertising	84	24
Supervisory fees and assessments	36	35
Loan expenses	30	21
Deposit expenses	54	52
Director fees	48	56
Other non-interest expense	118	106
Total noninterest expense	2,264	1,670
(Loss) income before income taxes	(246)	142
Income tax benefit	—	(28)
Net (loss) income	\$ (246)	\$ 170
Basic and diluted (loss) earnings per share	\$ (0.05)	\$ 0.03
Weighted average shares outstanding	4,927,032	4,989,933

See accompanying notes to consolidated unaudited financial statements

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

	For the three months ended March 31,	
	2024	2023
	(Dollars in thousands)	
Net (loss) income	\$ (246)	\$ 170
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 March 31, 2024 and 2023	(770)	2,212
Tax effect	220	(631)
Other comprehensive (loss) income, net of taxes	(550)	1,581
Comprehensive (loss) income	\$ (796)	\$ 1,751

See accompanying notes to consolidated unaudited financial statements

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

	Common Shares	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained earnings	Accumulated other comprehensive loss	Unallocated Common Shares Held by ESOP	Total
(Dollars in thousands)								
Quarter ended March 31, 2023								
Balance at December 31, 2022	5,397,959	\$ 54	\$ —	\$ 50,420	\$ 45,291	\$ (11,125)	\$ (4,098)	\$ 80,542
Cumulative impact of ASU 2016-13	—	—	—	—	(279)	—	—	(279)
Net income	—	—	—	—	170	—	—	170
ESOP shares committed to be released	—	—	—	1	—	—	54	55
Change in net unrealized loss on securities available for sale, net	—	—	—	—	—	1,581	—	1,581
Balance at March 31, 2023	5,397,959	\$ 54	\$ —	\$ 50,421	\$ 45,182	\$ (9,544)	\$ (4,044)	\$ 82,069
Quarter ended March 31, 2024								
Balance at December 31, 2023	5,315,261	\$ 56	\$ (2,381)	\$ 50,920	\$ 41,055	\$ (8,223)	\$ (3,882)	\$ 77,545
Net loss	—	—	—	—	(246)	—	—	(246)
ESOP shares committed to be released	—	—	—	(2)	—	—	53	51
Stock based compensation	—	—	—	162	—	—	—	162
Change in net unrealized loss on securities available for sale, net	—	—	—	—	—	(550)	—	(550)
Balance at March 31, 2024	5,315,261	\$ 56	\$ (2,381)	\$ 51,080	\$ 40,809	\$ (8,773)	\$ (3,829)	\$ 76,962

See accompanying notes to consolidated unaudited financial statements

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

	For the three months ended March 31,	
	2024	2023
	(Dollars in thousands)	
Cash flows from operating activities:		
Net (loss) income	\$ (246)	\$ 170
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	74	65
Securities amortization and accretion, net	129	135
Loans originated for sale	(5,964)	(576)
Proceeds from sales of loans held for sale	6,460	587
Gain on sale of mortgage loans	(156)	(11)
Reversal of provision for credit losses	(1)	(28)
Earnings on bank owned life insurance	(53)	(46)
ESOP expense	51	55
Stock based compensation	162	—
Net change in accrued interest receivable and other assets	183	173
Net change in accrued expenses and other liabilities	(547)	(261)
Net cash provided by operating activities	<u>92</u>	<u>263</u>
Cash flows from investing activities:		
Net change in portfolio loans	(6,461)	(540)
Principal repayments on mortgage-backed securities	1,437	2,155
Net change in time deposits with other financial institutions	—	747
Purchases of premises and equipment, net	(16)	—
Net cash (used in) provided by investing activities	<u>(5,040)</u>	<u>2,362</u>
Cash flows from financing activities:		
Net change in deposits	9,221	(6,462)
Net change in escrow deposits	699	545
Net cash provided by (used in) financing activities	<u>9,920</u>	<u>(5,917)</u>
Net change in cash and cash equivalents	4,972	(3,292)
Cash and cash equivalents at beginning of period	31,388	13,147
Cash and cash equivalents at end of period	\$ 36,360	\$ 9,855
Supplemental disclosures of cash flow information:		
Cash paid during the period for Interest	\$ 694	\$ 221
Loans transferred to held for sale from portfolio, net	1,246	—

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 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 month period ended March 31, 2024, are not necessarily indicative of the results that may be expected for the year ending December 31, 2024.

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. 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. During the third quarter of 2023, we established two additional loan production offices in Aurora and Plainfield, Illinois to expand our loan originations within the Chicagoland area. The lending teams operating in the Aurora and Plainfield, Illinois loan production offices originate as Oak Leaf Community Mortgage, a division of North Shore Trust and Savings, which complement the existing loan production office in Chicago. The Bank offers a variety of financial services to customers in our 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.

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 NSTS Bancorp, Inc.'s Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023. 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 credit 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 months ended March 31, 2024, are not necessarily indicative of results that may be expected for any other interim period or the entire fiscal year ending December 31, 2024. 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.

In March 2024, the FASB issued ASU No. 2024-01, "Compensation—Stock Compensation (Topic 718): Scope Applications of Profits Interests and Similar Awards" (ASU 2024-01). ASU 2024-01 adds an example to Topic 718 which illustrates how to apply the scope guidance to determine whether profits interests and similar awards should be accounted for as share-based payment arrangements under Topic 718 or under other U.S. GAAP. ASU 2024-01 is effective for annual periods beginning after December 15, 2025, although early adoption is permitted. Upon adoption, ASU 2024-01 is not expected to have an impact on the Company's consolidated balance sheets or consolidated statements of income.

Note 2: Securities Available for Sale

The amortized cost and estimated fair value of debt securities at March 31, 2024 and December 31, 2023, by contractual maturity, are shown below. The accrued interest receivable for securities available for sale was \$297,000 and \$351,000 on March 31, 2024 and December 31, 2023, respectively. 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.

	U.S. Treasury Notes	U.S. government agency obligations	Municipal obligations (Dollars in thousands)	Mortgage- backed residential obligations (Dollars in thousands)	Collateralized mortgage obligations	Total available- for-sale
March 31, 2024						
1 year or less	\$ 2,992	\$ 992	\$ 1,297	\$ —	\$ —	\$ 5,281
1 to 5 years	—	3,629	1,447	9,053	12,151	26,280
5 to 10 years	—	4,182	1,266	18,492	9,629	33,569
After 10 years	—	—	9,377	1,421	3,871	14,669
Fair value	2,992	8,803	13,387	28,966	25,651	79,799
Gross unrealized gains	—	—	—	—	—	—
Gross unrealized losses	(8)	(1,193)	(2,051)	(4,876)	(4,144)	(12,272)
Amortized cost	\$ 3,000	\$ 9,996	\$ 15,438	\$ 33,842	\$ 29,795	\$ 92,071
December 31, 2023						
1 year or less	\$ 2,973	\$ —	\$ 1,292	\$ —	\$ —	\$ 4,265
1 to 5 years	—	4,769	1,461	8,976	12,919	28,125
5 to 10 years	—	4,337	882	19,777	9,756	34,752
After 10 years	—	—	9,935	1,598	3,460	14,993
Fair value	2,973	9,106	13,570	30,351	26,135	82,135
Gross unrealized gains	—	—	1	—	—	1
Gross unrealized losses	(22)	(1,128)	(1,882)	(4,533)	(3,938)	(11,503)
Amortized cost	\$ 2,995	\$ 10,234	\$ 15,451	\$ 34,884	\$ 30,073	\$ 93,637

As of March 31, 2024, and December 31, 2023, 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 March 31, 2024 and December 31, 2023, 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 (Dollars in thousands)		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2024						
U.S. Treasury Notes	\$ —	\$ —	\$ 1,492	\$ 8	\$ 1,492	\$ 8
U.S. government agency obligations	—	—	8,803	1,193	8,803	1,193
Municipal obligations	565	9	12,352	2,042	12,917	2,051
Mortgage-backed residential obligations	—	—	28,966	4,876	28,966	4,876
Collateralized mortgage obligations	—	—	25,651	4,144	25,651	4,144
Total	\$ 565	\$ 9	\$ 77,264	\$ 12,263	\$ 77,829	\$ 12,272
December 31, 2023						
U.S. Treasury Notes	\$ —	\$ —	\$ 2,973	\$ 22	\$ 2,973	\$ 22
U.S. government agency obligations	—	—	9,106	1,128	9,106	1,128
Municipal obligations	279	1	12,796	1,881	13,075	1,882
Mortgage-backed residential obligations	—	—	30,351	4,533	30,351	4,533
Collateralized mortgage obligations	—	—	26,135	3,938	26,135	3,938
Total	\$ 279	\$ 1	\$ 81,361	\$ 11,502	\$ 81,640	\$ 11,503

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At March 31, 2024 and December 31, 2023, certain investment securities were in unrealized loss positions. There were no securities with identified credit losses at March 31, 2024 and December 31, 2023, respectively. Unrealized losses have not been recognized into income because, based on management's evaluation, the decline in fair value is largely due to increased market rates, temporary market conditions and trading spreads, and, as such, are considered to be temporary by the Bank. In addition, management has the intent and ability to hold the securities until they mature or they recover their carrying values.

All U.S. Treasuries, U.S. government agency obligations, mortgage-based residential obligations and collateralized mortgage obligations are agency-issued or government-sponsored enterprise issued. Agency-issued securities are generally guaranteed by a U.S. government agency, such as the Government National Mortgage Association. Government-sponsored enterprises, such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, or the Small Business Administration, have either a direct or implied guarantee by the U.S. government.

The Bank holds two classifications of municipal bonds, general obligation bonds and revenue bonds. General obligation bonds are backed by the general revenue of the issuing municipality, while revenue bonds are supported by a specific revenue source. All general obligation and revenue bonds have a bond rating of investment grade by Standard and Poor's or Moody's Investor Services or are not rated. There have been no declines in investment grades on bonds in a loss position and as of March 31, 2024, all municipal bonds are paying as agreed.

There were no sales of securities available-for-sale during the three months ended March 31, 2024 and 2023.

Note 3: Loans and allowance for credit losses

A summary of loans by major category as of March 31, 2024 and December 31, 2023 is as follows:

	March 31, 2024	December 31, 2023
	(Dollars in thousands)	
First mortgage loans		
1-4 family residential	\$ 115,700	\$ 111,081
Multi-family	3,081	3,111
Commercial	3,828	3,835
Construction	3,245	2,508
Total first mortgage loans	125,854	120,535
Consumer loans	226	248
Total loans	126,080	120,783
Net deferred loan costs	934	1,016
Allowance for credit losses on loans	(1,177)	(1,176)
Total loans, net	\$ 125,837	\$ 120,623

First mortgage loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balance of these loans totaled \$14.7 million and \$13.2 million at March 31, 2024 and December 31, 2023, respectively. Custodial escrow balances maintained in connection with the loans serviced were \$321,000 and \$231,000 at March 31, 2024 and December 31, 2023, respectively.

The accrued interest receivable for loans, net, was \$476,000 and \$392,000 for March 31, 2024 and December 31, 2023, respectively.

In the normal course of business, loans are made by the Bank to directors and officers of the Company and 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 March 31, 2024 and December 31, 2023, such borrowers were indebted to the Bank in the aggregate amount of \$542,000 and \$550,000, respectively.

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

	March 31, 2024					
	1-4 family residential	Multi-family	Commercial	Construction	Consumer	Total
	(Dollars in thousands)					
Three months ended						
Beginning balance	\$ 1,094	\$ 40	\$ 37	\$ 4	\$ 1	\$ 1,176
Charge-offs	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—
Net recoveries (charge-offs)	—	—	—	—	—	—
(Release of) provision for credit losses	(3)	(4)	—	7	1	1
Ending balance	\$ 1,091	\$ 36	\$ 37	\$ 11	\$ 2	\$ 1,177

	March 31, 2023					
	1-4 family residential	Multi-family	Commercial	Construction	Consumer	Total
	(Dollars in thousands)					
Three months ended						
Beginning balance	\$ 581	\$ 19	\$ 19	\$ —	\$ 5	\$ 624
Cumulative effect of change in accounting principle	335	23	29	—	(3)	384
Charge-offs	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—
Net recoveries (charge-offs)	—	—	—	—	—	—
Release of provision for credit losses	(26)	(1)	(2)	—	—	(29)
Ending balance	\$ 890	\$ 41	\$ 46	\$ —	\$ 2	\$ 979

The ACL on loans excludes \$11,000 of allowance for off-balance sheet exposures as of March 31, 2024 recorded within Other Liabilities.

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As of March 31, 2024, collateral dependent loans totaled \$237,000 in the 1-4 family residential loan segment. These loans are collateralized by residential real estate and have no ACL as of March 31, 2024. There were no other collateral dependent loans as of March 31, 2024. As of December 31, 2023, collateral dependent loans totaled \$200,000 in the one to four-family residential loan segment. These loans are collateralized by residential real estate and have no ACL as of December 31, 2023. There were no other collateral dependent loans as of December 31, 2023.

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.

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The following tables present the credit risk profile of the Company's loan portfolio based on risk rating category and year of origination as of March 31, 2024 and December 31, 2023.

As of March 31, 2024								
Term loans amortized cost basis by origination year								
	2024	2023	2022	2021	Prior	Revolving loans amortized cost basis	Revolving loans converted to term loans amortized cost basis	Total
(Dollars in thousands)								
1-4 family residential								
Pass	\$ 7,303	\$ 21,211	\$ 18,844	\$ 19,421	\$ 46,387	\$ 2,297	\$ —	115,463
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	237	—	—	237
Total 1-4 family residential	7,303	21,211	18,844	19,421	46,624	2,297	—	115,700
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—
Multi-family								
Pass	—	—	—	236	2,845	—	—	3,081
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total multi-family	—	—	—	236	2,845	—	—	3,081
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—
Commercial								
Pass	10	184	—	99	3,327	208	—	3,828
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total commercial	10	184	—	99	3,327	208	—	3,828
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—
Construction								
Pass	244	3,001	—	—	—	—	—	3,245
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total construction	244	3,001	—	—	—	—	—	3,245
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—
Consumer								
Pass	11	100	87	25	3	—	—	226
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total consumer	11	100	87	25	3	—	—	226
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—
Total	\$ 7,568	\$ 24,496	\$ 18,931	\$ 19,781	\$ 52,799	\$ 2,505	\$ —	\$ 126,080

As of December 31, 2023							
Term loans amortized cost basis by origination year							
	2023	2022	2021	Prior	Revolving loans amortized cost basis	Revolving loans converted to term loans amortized cost basis	Total
(Dollars in thousands)							
1-4 family residential							
Pass	\$ 23,395	\$ 18,950	\$ 19,605	\$ 47,517	\$ 1,414	\$ —	\$ 110,881
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	200	—	—	200
Total 1-4 family residential	23,395	18,950	19,605	47,717	1,414	—	111,081
Current year-to-date gross write-offs	—	—	—	—	—	—	—
Multi-family							
Pass	—	—	239	2,872	—	—	3,111
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total multi-family	—	—	239	2,872	—	—	3,111
Current year-to-date gross write-offs	—	—	—	—	—	—	—
Commercial							
Pass	186	—	100	3,399	150	—	3,835
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total commercial	186	—	100	3,399	150	—	3,835
Current year-to-date gross write-offs	—	—	—	—	—	—	—
Construction							
Pass	2,508	—	—	—	—	—	2,508
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total construction	2,508	—	—	—	—	—	2,508
Current year-to-date gross write-offs	—	—	—	—	—	—	—
Consumer							
Pass	122	95	28	3	—	—	248
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total consumer	122	95	28	3	—	—	248
Current year-to-date gross write-offs	—	—	—	—	—	—	—
Total	\$ 26,211	\$ 19,045	\$ 19,972	\$ 53,991	\$ 1,564	\$ —	\$ 120,783

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The aging of the Bank's loan portfolio as of March 31, 2024 and December 31, 2023, 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)					
March 31, 2024						
1-4 family residential	\$ —	\$ —	\$ 237	\$ 237	\$ 115,463	\$ 115,700
Multi-family	—	—	—	—	3,081	3,081
Commercial	—	—	—	—	3,828	3,828
Construction	—	—	—	—	3,245	3,245
Consumer	—	—	—	—	226	226
Total	\$ —	\$ —	\$ 237	\$ 237	\$ 125,843	\$ 126,080
December 31, 2023						
1-4 family residential	\$ 131	\$ —	\$ 200	\$ 331	\$ 110,750	\$ 111,081
Multi-family	—	—	—	\$ —	3,111	\$ 3,111
Commercial	—	—	—	\$ —	3,835	\$ 3,835
Construction	—	—	—	\$ —	2,508	\$ 2,508
Consumer	—	—	—	\$ —	248	\$ 248
Total	\$ 131	\$ —	\$ 200	\$ 331	\$ 120,452	\$ 120,783

The following table presents the amortized cost basis of loans on nonaccrual status recorded at March 31, 2024 and December 31, 2023. There was no interest recognized on non-accrual loans for the three months ended March 31, 2024.

	March 31, 2024		December 31, 2023	
	Nonaccrual with no Allowance for Credit Losses	Nonaccrual	Nonaccrual with no Allowance for Credit Losses	Nonaccrual
	(Dollars in thousands)			
First mortgage loans				
1-4 family residential	\$ 237	\$ 237	\$ 200	\$ 200
Multi-family	—	—	—	—
Commercial	—	—	—	—
Construction	—	—	—	—
Consumer loans	—	—	—	—
Total loans	\$ 237	\$ 237	\$ 200	\$ 200

The Bank may modify loans to borrowers experiencing financial difficulty by providing modifications to repayment terms; more specifically, modifications to loan interest rates. Management performs an analysis at the time of loan modification. Any reserve required is recorded through a provision to the allowance for credit losses on loans. There were no modifications on loans to borrowers experiencing financial difficulty during the three months ended March 31, 2024 and 2023.

Note 4: Deposits

As of March 31, 2024 the scheduled maturities of time deposits are as follows:

For the 12 months ended March 31,	Amount (Dollars in thousands)
2025	\$ 52,021
2026	7,420
2027	4,472
2028	6,245
2029 and beyond	5,984
Total	<u>\$ 76,142</u>

In the normal course of business, deposit accounts are held by directors and executive officers of the Company and 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 March 31, 2024 and December 31, 2023, total deposits held by directors and officers of the Company and the Bank were \$826,000 and \$739,000, respectively.

Note 5: Other Borrowings

There were no borrowings made during the three months ended March 31, 2024 and 2023.

The following table shows certain information regarding our borrowings at or for the dates indicated:

	For the three months ended	
	March 31,	
	2024	2023
	(Dollars in thousands)	
FHLB of Chicago advances and other borrowings:		
Average balance outstanding	\$ 5,000	\$ —
Maximum amount outstanding at any month-end during the period	5,000	—
Average interest rate during the period	4.8%	0.0%

	March 31, 2024	December 31, 2023
	(Dollars in thousands)	
Balance outstanding at end of period	5,000	5,000
Weighted average interest rate at end of period	4.8%	4.8%

The eligible borrowings are collateralized by \$103.2 million and \$102.6 million of first mortgage loans under a blanket lien arrangement at March 31, 2024 and December 31, 2023, respectively.

The following table shows the outstanding advances, additional borrowing capacity and total borrowing capacity from the FHLB Chicago at the dates presented.

	March 31, 2024	December 31, 2023
	(Dollars in thousands)	
Outstanding advances	\$ 5,000	\$ 5,000
Additional borrowing capacity	72,882	72,200
Total borrowing capacity	\$ 77,882	\$ 77,200

Additionally, at March 31, 2024 and December 31, 2023, we had a \$10.0 million federal funds line of credit with BMO Harris Bank, none of which was drawn at March 31, 2024 and December 31, 2023.

Note 6: 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 March 31, 2024 or December 31, 2023.

Securities available for sale (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.

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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 March 31, 2024 and December 31, 2023:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
		(Dollars in thousands)		
March 31, 2024				
Securities Available-for-sale				
U.S. Treasury Notes	\$ 2,992	\$ 2,992	\$ —	\$ —
U.S. government agency obligations	8,803	—	8,803	—
Municipal obligations	13,387	—	13,387	—
Mortgage-backed residential obligations	28,966	—	28,966	—
Collateralized mortgage obligations	25,651	—	25,651	—
Total	\$ 79,799	\$ 2,992	\$ 76,807	\$ —
December 31, 2023				
Securities Available-for-sale				
U.S. Treasury Notes	\$ 2,973	\$ 2,973	\$ —	\$ —
U.S. government agency obligations	9,106	—	9,106	\$ —
Municipal obligations	13,570	—	13,570	—
Mortgage-backed residential obligations	30,351	—	30,351	—
Collateralized mortgage obligations	26,135	—	26,135	—
Total	\$ 82,135	\$ 2,973	\$ 79,162	\$ —

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. There were no assets measured at fair value on a nonrecurring basis as of March 31, 2024 and December 31, 2023.

Note 7: Fair Value of Financial Instruments

Financial instruments are classified within the fair value hierarchy using the methodologies described in Note 6 – Fair Value Measurements. The following disclosures include financial instruments that are not carried at fair value on the Consolidated Balance Sheets. The calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

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 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)					
March 31, 2024					
Financial assets:					
Loans, net	\$ 125,837	\$ —	\$ —	\$ 115,646	\$ 115,646
Loans held for sale	1,286	—	1,309	—	1,309
Financial liabilities:					
Interest-bearing deposits	\$ 165,819	\$ —	\$ 166,153	\$ —	\$ 166,153
Other Borrowings	5,000	—	5,015	—	5,015
December 31, 2023					
Financial assets:					
Loans, net	\$ 120,623	\$ —	\$ —	\$ 110,288	\$ 110,288
Loans held for sale	380	—	387	—	387
Financial liabilities:					
Interest-bearing deposits	\$ 156,402	\$ —	\$ 156,092	\$ —	\$ 156,092
Other Borrowings	5,000	—	4,990	—	4,990

Note 8: 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 March 31, 2024 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 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 drop 100 basis points below the then applicable threshold, and will not be required to calculate and report risk-based capital ratios. The Bank elected to begin using CBLR for the first quarter of 2020. Management believes, as of March 31, 2024, that the Bank met all capital adequacy requirements to which it was subject.

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The Bank's actual capital amounts and ratios as of March 31, 2024 and December 31, 2023, are presented below:

	Actual		Minimum Required to be Well-Capitalized (1)	
	Amount	Ratio	Amount	Ratio
(Dollars in thousands)				
As of March 31, 2024				
Tier 1 capital (to Average Assets)	\$ 63,497	24.25%	\$ 23,566	>9%
As of December 31, 2023				
Tier 1 capital (to Average Assets)	\$ 63,258	24.72%	\$ 23,031	>9%

(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 9: 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 March 31, 2024 and December 31, 2023, unused lines of credit and outstanding commitments to originate loans were as follows:

	March 31, 2024	December 31, 2023
	(Dollars in thousands)	
Unused line of credit	\$ 4,781	\$ 4,050
Commitments to originate loans	8,165	3,770
Total commitments	\$ 12,946	\$ 7,820

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 10: 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 for the three months ended March 31, 2024 and 2023, and therefore the weighted average common shares outstanding 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.

	Three Months Ended March 31,	
	2024	2023
	(Income in thousands)	
Net (loss) income applicable to common shares	\$ (246)	\$ 170
Average number of common shares outstanding	5,315,261	5,397,959
Less: Average unallocated ESOP shares	388,229	408,026
Average number of common shares outstanding used to calculate basic earnings per common share	4,927,032	4,989,933
(Loss) earnings income per common share basic and diluted	\$ (0.05)	\$ 0.03

All unallocated ESOP shares have been excluded from the calculation of basic and diluted EPS. The computation of diluted earnings per share excludes certain outstanding stock options that were outstanding and anti-dilutive, since the Company was in a loss position or since the grant date fair value of these outstanding stock options exceeded the average market price of the Company's common stock.

Note 11: Stock Based Compensation

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 three months of 2024, as the annual loan payment will be made during the fourth quarter. Expense recorded was \$51,000 and \$55,000 for the three months ended March 31, 2024 and 2023, respectively, and is recognized over the service period.

Shares held by the ESOP were as follows:

	As of March 31,	
	2024	2023
	(Dollars in thousands)	
Shares allocated	43,624	22,009
Shares committed for allocation	5,295	5,404
Unallocated	382,917	404,423
Total ESOP shares	431,836	431,836
Fair value of unearned shares as of March 31, 2024 and 2023, respectively	\$ 3,653	\$ 3,676

Fair value of unearned shares is based on a stock price of \$ 9.54 and \$9.09 as of March 31, 2024 and 2023, respectively.

Equity Incentive Plan

At the Company's annual meeting of stockholders held on May 24, 2023, stockholders approved the NSTS Bancorp, Inc. 2023 Equity Incentive Plan ("2023 Equity Plan"), which provides for the granting of up to 755,714 shares (215,918 shares of restricted stock and 539,796 shares available for future grants of stock options) of the Company's common stock pursuant to equity awards made under the 2023 Equity Plan.

Stock options granted under the 2023 Equity Plan generally vest in equal annual installments over a service period of five years beginning on the date of grant. The vesting of the options accelerates upon death, disability or an involuntary termination at or following a change in control of the Company. Stock options are generally granted at an exercise price equal to the fair value of the Company's common stock on the grant date based on the closing market price of the Company's common stock on the date of grant, and have an expiration period of ten years. As of March 31, 2024, the Company has 74,296 shares available for future grants of stock options under the 2023 Equity Plan.

The Company recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite service period of the awards. Upon exercise of vested options, management expects to first draw on treasury stock as the source for shares. There were no stock options granted during the three months ended March 31, 2024 or March 31, 2023.

The following is a summary of the Company's stock option activity and related information for the period presented. There was no stock option activity for the three months ended March 31, 2023.

Stock Option	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)
Outstanding at December 31, 2023	442,500	\$ 9.36	
Granted	—	—	
Forfeited	—	—	
Outstanding at March 31, 2024	442,500	\$ 9.36	\$ 80
Exercisable - End of Period	23,000	9.36	4

(1) Dollars in thousands. The aggregate intrinsic value of outstanding and exercisable options at March 31, 2024 were calculated based on the closing market price of the Company's common stock of March 31, 2024 of \$9.54 per share less the exercise price.

Expected future expense relating to the non-vested options outstanding as of March 31, 2024 is \$1.3 million over a weighted average period of 4.2 years. As of March 31, 2024, the Company had 442,500 in nonvested stock options with a weighted average remaining life of 9.2 years outstanding.

Restricted shares granted under the 2023 Equity Plan generally vest in equal annual installments over a service period of five years beginning on the date of grant. The vesting of the awards accelerates upon death, disability or an involuntary termination at or following a change in control of the Company. The product of the number of shares granted and the grant date closing market price of the Company's common stock determines the fair value of restricted shares under the 2023 Equity Plan. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period.

As of March 31, 2024, the Company has 28,718 shares of restricted stock available for future grants under the 2023 Equity Plan.

The following is a summary of the status of the Company's restricted shares as of March 31, 2024 and changes thereto during the period presented. There were no shares of restricted stock granted during the three months ended March 31, 2024 or 2023. There was no restricted stock activity during the three months ended March 31, 2023.

Restricted Stock	Shares	Weighted Average Grant Date Fair Value
Nonvested balance as of December 31, 2023	178,000	\$ 9.36
Granted	—	—
Forfeited	—	—
Nonvested balance as of March 31, 2024	178,000	\$ 9.36

Expected future expense related to the non-vested restricted shares outstanding as of period end is \$ 1.4 million over a weighted average period of 4.2 years.

The following table presents the stock based compensation expense for the periods presented.

	Three Months Ended March 31,	
	2024	2023
	(Dollars in thousands)	
Stock option expense	\$ 79	\$ —
Restricted stock expense	83	—
Total stock based compensation expense	\$ 162	\$ —

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 March 31, 2024 and as compared to our financial condition as of December 31, 2023, and our results of operations for the three months ended March 31, 2024 and 2023. 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 credit losses;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- 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;
- our ability to manage our liquidity and to access cost-effective funding, including significant fluctuations in our deposit accounts;
- 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;
- interruptions involving information technology and communications systems of service providers;
- breaches or failures of information security controls or cyber-related incidents;
- 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;
- 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 reliance on our executive officers; 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, 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. 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 NSTS Bancorp, Inc.'s Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

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. The Bank is a wholly owned subsidiary of NSTS Bancorp, Inc., and operates 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. During the third quarter of 2023, we added additional loan production offices in Aurora and Plainfield, Illinois to complement the existing 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 over 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 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. To complement the existing offices, during the third quarter of 2023, we established two additional loan production offices in Aurora and Plainfield, Illinois to expand our loan originations within the Chicagoland area. The lending teams operating in the Aurora and Plainfield, Illinois loan production offices originate as Oak Leaf Community Mortgage, a division of North Shore Trust and Savings. 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 months ended March 31, 2024 and 2023, 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.

Of the significant accounting policies used in the preparation of our consolidated financial statements, we have identified certain items as critical accounting policies based on the associated estimates, assumptions, judgments and complexity. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies*" in our Annual Report on Form 10-K for the year ended December 31, 2023.

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 credit 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. Our results of operations and financial condition are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, 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 March 31,

	2024			2023		
	Average		Average	Average		Average
	Outstanding	Interest	Yield/ Rate	Outstanding	Interest	Yield/ Rate
	Balance			Balance		
	(Dollars in thousands)					
Interest-earning assets:						
Loans, net	\$ 125,335	\$ 1,475	4.71%	\$ 104,054	\$ 1,018	3.91%
Federal funds sold and interest-bearing deposits in other banks	33,179	417	5.03%	8,054	52	2.58%
Time deposits with other financial institutions	1,991	23	4.62%	4,253	24	2.26%
Securities available for sale	80,685	481	2.38%	121,514	760	2.50%
FHLB stock	550	9	6.55%	550	4	2.91%
Total interest-earning assets	241,740	\$ 2,405	3.98%	238,425	\$ 1,858	3.12%
Noninterest-earning assets	19,638			21,283		
Total assets	\$ 261,378			\$ 259,708		
Interest-bearing liabilities:						
Interest-bearing demand	\$ 15,128	\$ 2	0.05%	\$ 18,248	\$ 2	0.04%
Money market	31,697	50	0.63%	40,799	53	0.52%
Savings	41,614	16	0.15%	48,023	18	0.15%
Time deposits	73,812	572	3.10%	53,066	148	1.12%
Total interest-bearing deposits	\$ 162,251	\$ 640	1.58%	\$ 160,136	\$ 221	0.55%
Other borrowings	5,000	60	4.80%	—	—	—%
Total interest-bearing liabilities	167,251	\$ 700	1.67%	160,136	\$ 221	0.55%
Noninterest-bearing liabilities	17,159			19,644		
Total liabilities	\$ 184,410			\$ 179,780		
Equity	76,968			79,928		
Total liabilities and equity	\$ 261,378			\$ 259,708		
Net interest income		\$ 1,705			\$ 1,637	
Interest rate spread ⁽¹⁾			2.31%			2.57%
Net interest-earning assets ⁽²⁾	\$ 74,489			\$ 78,289		
Net interest margin ⁽³⁾			2.82%			2.75%
Average interest-earning assets to average-interest bearing liabilities	144.54%			148.89%		

(1) Equals the difference between the yield on average earning-assets and the cost of average interest-bearing liabilities.

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

(3) Equals net interest income divided by average interest-earning assets.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023

General. For the three months ended March 31, 2024, we had a net loss of \$246,000, compared to net income of \$170,000 for the three months ended March 31, 2023. The decrease in net income is primarily the result of an increase in non-interest expense, primarily related to salaries and employee benefits. The increase in non-interest expenses was partially offset by higher net interest income and an increase in non-interest income, primarily driven by an increase in the gain on sale of mortgage loans.

Net Interest Income. Net interest income increased \$68,000 for the three months ended March 31, 2024 compared to the same period ended March 31, 2023. Our interest rate spread decreased to 2.31% for the three months ended March 31, 2024 from 2.57% for the same period ended March 31, 2023. Our net interest margin increased to 2.82% for the three months ended March 31, 2024, compared to 2.75% for the three months ended March 31, 2023. Interest earned on earning assets increased \$547,000, to \$2.4 million, with an increased yield on earning assets of 3.98%, or an increase of 86 basis points. The increase is driven by an increase in yield on funds held at the Federal Reserve Bank and other interest-bearing deposits, which increased 245 basis points. The Federal Reserve Bank increased their deposit rate by 100 basis points from January 2023 to March 2024. Further, management held a larger portion of its interest-bearing deposits at the Federal Reserve Bank to increase the yield earned. Additionally, the yield earned on time deposits with other financial institutions increased 236 basis points. The yield on loans increased 80 basis points, to 4.71%. The Bank originated loans with a weighted average rate of 7.82% during the first quarter of 2024.

The cost of interest-bearing deposits increased \$419,000 to \$640,000 for the three months ended March 31, 2024. Additionally, the cost of interest-bearing deposits increased 103 basis points, to 1.58%, for the three months ended March 31, 2024 compared to 0.55% for the three months ended March 31, 2023. The net increase in our funding costs for 2024 was primarily due to an increase in rates offered on time deposits. The Bank offered CD specials to attract and retain customers. Additionally, during the three-months ended March 31, 2024, the average balance of higher earning interest bearing deposits, such as time deposits, increased to \$73.8 million, or 45.5% of the total interest bearing deposits, compared to an average balance of \$53.1 million, or 33.1% of the total interest bearing deposits for the three months ended March 31, 2023. The shift in deposits to higher earning deposits contributed to the overall increase in the cost of funds.

During the second quarter of 2023, the Bank borrowed \$5.0 million from FHLB Chicago at a rate of 4.78%, resulting in an interest expense of \$60,000 during the three months ended March 31, 2024.

Provision for Credit Losses. For the three months ended March 31, 2024 and 2023, a reversal of the provision for credit losses was recorded based on the current allowance for credit loss ("ACL") assessment. During the three months ended March 31, 2024, we recorded a reversal provision for credit losses of \$1,000, comprised of \$1,000 in provision for credit losses to loans and a \$2,000 reversal of credit losses related to unfunded commitments. During the three months ended March 31, 2023, we recorded a reversal of provision for credit losses of \$28,000, comprised of \$29,000 in reversal of provision for credit losses on loans and a \$1,000 provision of credit losses related to unfunded commitments. We will continue to assess and evaluate the estimated future credit loss impact of current market conditions in subsequent reporting periods, which will be highly dependent on credit quality, macroeconomic forecasts and conditions, as well as the composition of our loan and available-for-sale securities portfolios.

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

Noninterest income:	Three months ended March 31,	
	2024	2023
	(Dollars in thousands)	
Gain on sale of mortgage loans	\$ 156	\$ 11
Rental income on office building	16	16
Service charges on deposits	61	64
Increase in cash surrender value of BOLI	53	46
Other non-interest income	26	10
Total noninterest income	<u>\$ 312</u>	<u>\$ 147</u>

For the three months ended March 31, 2024 compared to the three months ended March 31, 2023, noninterest income increased \$165,000 to \$312,000, as a result of an increase in the gain on sale of mortgage loans. During the three months ended March 31, 2024, the Bank began selling loan pools to local community banks, totaling \$1.2 million, resulting in a net gain on sale of mortgage loans, including fees and costs, of \$43,000. In addition to these sales, the Bank sold 22 loans, totaling \$5.1 million, resulting in a net gain on sale of \$113,000. The Bank intends to continue to increase the volume of sold loans in both the local community bank market and the secondary market throughout the year.

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

Noninterest expense:	Three months ended March 31,	
	2024	2023
	(Dollars in thousands)	
Salaries and employee benefits	\$ 1,374	\$ 928
Equipment and occupancy	214	166
Data processing	195	161
Professional services	111	121
Advertising	84	24
Supervisory fees and assessments	36	35
Loan expenses	30	21
Deposit expenses	54	52
Director Fees	48	56
Other non-interest expense	118	106
Total noninterest expense	<u>\$ 2,264</u>	<u>\$ 1,670</u>

Noninterest expense increased \$594,000 for the three months ended March 31, 2024 compared to the same period ended March 31, 2023. The increase in noninterest expense is primarily related to an increase in salaries and employee benefits, which increased \$446,000 during the quarter ended March 31, 2024 compared to the same period ended March 31, 2023, due to the additional Oak Leaf Community Mortgage staff brought on in the fourth quarter of 2023 and the implementation of the 2023 Equity Incentive Plan, which had total expenses of \$162,000 for the quarter ended March 31, 2024.

Additionally, advertising expense increased to \$84,000 for the three months ended March 31, 2024 compared to \$24,000 for the three months ended March 31, 2023. The increase in advertising expenses is primarily related to advertising our new loan team and products in our added market area of Will County.

Provision for Income Tax Expense (Benefit). There was no provision for income tax expense recorded during the three months ended March 31, 2024. Management estimates a taxable net loss for the year ended December 31, 2024 due to non-taxable income, such as income on tax exempt municipal securities and BOLI.

During the quarter ended March 31, 2024, management assessed the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing net operating losses. A significant piece of objective negative evidence evaluated is the cumulative taxable loss incurred over the three-year period ended March 31, 2024. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. On the basis of this evaluation, as of March 31, 2024, management maintained the full valuation allowance against the federal net operating losses and net deferred tax assets to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2024 AND DECEMBER 31, 2023

	<u>At March 31,</u>	<u>At December 31,</u>
	<u>2024</u>	<u>2023</u>
	(Dollars in thousands)	
Selected Consolidated Financial Condition Data:		
Cash and cash equivalents	\$ 36,360	\$ 31,388
Securities available for sale	79,799	82,135
FHLB stock	550	550
Loans held for sale	1,286	380
Loans, net	125,837	120,623
Total assets	265,564	256,776
Total deposits	178,047	168,826
Total equity	\$ 76,962	\$ 77,545

Total Assets. Total assets increased \$8.8 million to \$265.6 million as of March 31, 2024 compared to \$256.8 million at December 31, 2023. The increase was driven by an increase in time deposits, resulting in an increase in cash and cash equivalents. Additionally, management reinvested the deposit proceeds into loans, net.

Cash and cash equivalents. Cash and cash equivalents increased \$5.0 million to \$36.4 million as of March 31, 2024, from \$31.4 million at December 31, 2023. The increase in cash was driven by an increase in time deposits during the same period and principal payments received on securities available for sale. Currently, the Bank holds a majority of the cash on hand at the Federal Reserve Bank of Chicago, earning 5.40%, to keep the funds available for increasing loan demand. Management continues to actively monitor our liquidity position on a daily basis and maintain levels of liquid assets deemed adequate.

Securities Available for Sale. Securities available-for-sale decreased to \$79.8 million as of March 31, 2024, compared to \$82.1 million at December 31, 2023. There were no purchases or sales of securities available-for-sale during the three months ended March 31, 2024. During the three months ended March 31, 2024, the Bank received principal payments of \$1.4 million, had no calls and maturities, had net premium amortization and discount accretion of \$129,000 and had an increase in the unrealized loss on the portfolio of \$770,000. Additionally, the securities portfolio has one security that matures on April 1, 2024, totaling \$1.5 million.

As of March 31, 2024, the securities available for sale portfolio included an unrealized loss position of \$12.3 million, or 13.5% of the total book value of the portfolio. Management monitors the portfolio for credit losses and believes that the decline in value does not presently represent realized losses and is due to market volatility and increased market interest rates. While the Bank does not currently intend to sell securities in a loss position, management may consider the opportunity to reposition the investment securities portfolio in the future.

Loans held for sale. Our loans held for sale increased \$906,000 to \$1.3 million at March 31, 2024 compared to \$380,000 at December 31, 2023. With the addition of Oak Leaf Community Mortgage during the late third and early fourth quarters of 2023, and the related increase in loan originations, management has increased the proportion of loan originations held for sale to the secondary market. Additionally, during the first quarter of 2024, management sold approximately \$1.2 million of loans originally held in the portfolio to local community banks, adding a new secondary market channel for the bank.

Loans, net. Our loans, net, increased by \$5.2 million to \$125.8 million at March 31, 2024 compared to \$120.6 million at December 31, 2023. The Bank originated \$10.5 million in loans to be held in the portfolio during the three months ended March 31, 2024. The Bank sold \$1.2 million in loans that were originally held in the portfolio to local community banks. Additionally, during the three months ended March 31, 2024, loan principal payments and paydowns totaled \$4.1 million.

As of March 31, 2024, the allowance for credit losses ("ACL") which includes the allowance for credit losses on loans, and the allowance for credit losses on off-balance sheet exposures, totaled \$1.2 million, essentially flat compared to December 31, 2023. As of March 31, 2024, there were three loans rated substandard or watch which were individually assessed, totaling \$237,000, of which none had specific reserves. Additionally, the Bank individually assessed the largest residential construction loan, totaling \$2.6 million, noting no specific reserve was required as of March 31, 2024.

Deposits. Total deposits increased \$9.2 million to \$178.0 million at March 31, 2024 compared to \$168.8 million at December 31, 2023. The increase in deposits is primarily within the time deposits as the Bank continued to offer a competitive CD special during the three months ended March 31, 2024. Management continues to actively monitor the deposit balances and interest rates offered to maintain an adequate level of liquidity.

Total Equity. Total equity decreased \$583,000 to \$77.0 million at March 31, 2024 primarily due to an increase in the unrealized loss position on the securities available-for-sale portfolio. The increase in the unrealized loss position of \$550,000, net of the related tax effect, is due to changes in market interest rates.

Asset Quality

The following table sets forth certain information with respect to our nonperforming assets. The increase in non-accrual loans from December 31, 2023 to March 31, 2024 was the result of one new loan moving to non-accrual, which was partially offset by the payoff of one previous non-accrual loan during the first quarter of 2024.

	At March 31, 2024	At December 31, 2023
	(Dollars in thousands)	
Nonaccrual loans	\$ 237	\$ 200
Loans 90+ days past due and accruing	—	—
Total non-performing loans	237	200
Other real estate owned, net	—	—
Total non-performing assets	\$ 237	\$ 200
Asset Quality Ratios: (1)		
Non-accrual loans as a percent of total loans outstanding	0.19%	0.17%
Non-performing assets as a percent of total assets	0.09%	0.08%
Allowance for credit losses on loans as a percent of total loans outstanding	0.93%	0.97%
Allowance for credit losses on loans as a percent of non-performing loans (2)	496.62%	588.00%
Net charge-offs (recoveries) to average loans receivable	—%	—%

(1) Asset quality ratios and capital ratios are end of period ratios, except for net charge-offs to average loans receivable.

(2) Non-performing loans consist of non-accrual loans and loans that are 90 or more days past due and still accruing.

The allowance for credit losses on loans as a percentage of total loans as of March 31, 2024 was 0.93%. The allowance for loan losses as a percentage of total loans at December 31, 2023 was 0.97%. The decrease is the result of general economic improvements, including lower average inflation.

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 and a \$10.0 million unsecured Fed Funds line of credit with BMO Harris Bank. At March 31, 2024, we had one outstanding advance from the FHLB of Chicago totaling \$5.0 million and had the capacity to borrow approximately \$72.8 million additional from the FHLB of Chicago. Additionally, we had no outstanding balance under our \$10.0 million federal funds line of credit with BMO Harris Bank.

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 \$92,000 and \$263,000 for the three months ended March 31, 2024 and 2023, respectively. Net cash (used in) provided by investing activities, which consists primarily of net change in loans receivable and net change in investment securities, was \$(5.0) million and \$2.4 million for the three months ended March 31, 2024 and 2023, respectively, with the increase in cash used in 2024 driven by the increase in the portfolio loans. Net cash provided by (used in) financing activities, consisting primarily of the activity in deposit accounts was \$9.9 million and \$(5.9) million for the three months ended March 31, 2024 and 2023, 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 March 31, 2024, totaled \$52.0 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 March 31, 2024, 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%, 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 24.25% and 24.72% at March 31, 2024 and December 31, 2023, respectively.

Off-Balance Sheet Arrangements. At March 31, 2024, we had \$8.2 million of outstanding commitments to originate loans. Our total letters and lines of credit and unused lines of credit totaled \$4.8 million at March 31, 2024.

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 March 31, 2024.

	Total Amounts Committed at March 31, 2024	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	\$ 4,781	\$ 552	\$ 831	\$ 217	\$ 3,181
Commitments to originate loans	8,165	8,165	—	—	—
Total commitments	\$ 12,946	\$ 8,717	\$ 831	\$ 217	\$ 3,181

Contractual Cash Obligations. The following table summarizes our contractual cash obligations at March 31, 2024.

	Total at March 31, 2024	Payments Due By Period			
		To 1 Year	1-3 Years	4-5 Years	After 5 Years
		(Dollars in thousands)			
Time deposits	\$ 76,142	\$ 52,021	\$ 11,892	\$ 12,229	\$ —
FHLB advances	5,000	—	5,000	—	—
Total contractual obligations	\$ 81,142	\$ 52,021	\$ 16,892	\$ 12,229	\$ —

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

In March 2024, the FASB issued ASU No. 2024-01, "Compensation—Stock Compensation (Topic 718): Scope Applications of Profits Interests and Similar Awards" (ASU 2024-01). ASU 2024-01 adds an example to Topic 718 which illustrates how to apply the scope guidance to determine whether profits interests and similar awards should be accounted for as share-based payment arrangements under Topic 718 or under other U.S. GAAP. ASU 2024-01 is effective for annual periods beginning after December 15, 2025, although early adoption is permitted. Upon adoption, ASU 2024-01 is not expected to have an impact on the Company's consolidated balance sheets or consolidated statements of income.

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 March 31, 2024, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company 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 March 31, 2024, 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

Issuer Purchases of Equity Securities

Effective December 21, 2023, the Company's Board of Directors authorized a new share repurchase program that authorizes the Company to repurchase up to an aggregate of 265,763 shares, or 5%, of its then outstanding common stock. The program will be in effect until December 31, 2024, unless earlier terminated. There were no repurchases of our common stock during the quarter ended March 31, 2024.

Under the new share repurchase program, the Company is authorized to repurchase shares from time to time in the open market or negotiated transactions at prevailing market rates, or by other means in accordance with federal securities laws. In connection with the share repurchase program, the Company has implemented a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1 under the Securities Exchange Act. The trading plan allows the Company to repurchase shares of its common stock at times when it otherwise might have been prevented from doing so under insider trading laws by requiring that an agent selected by the Company repurchase shares of common stock on the Company's behalf on pre-determined terms.

There were no unregistered sales of NSTS Bancorp, Inc.'s common stock during the three months ended March 31, 2024.

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: May 13, 2024

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

Dated: May 13, 2024

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

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as 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: May 13, 2024

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

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as 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: May 13, 2024

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

**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 March 31, 2024 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: May 13, 2024

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

Dated: May 13, 2024

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