

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

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2021

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, par value \$0.01 share | NSTS              | NASDAQ Capital Market                     |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file 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

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter: At June 30, 2021, there were no publicly issued shares of common stock, as such, there was no market value.

As of March 15, 2022, the Registrant had 5,397,959 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for its Annual Meeting of Stockholders, scheduled to be held May 25, 2022, are incorporated by reference into Part III of this Form 10-K.

Auditor Name: Plante & Moran, PLLC      Auditor Location: Chicago, Illinois      Auditor Firm ID: 166

---

Table of Contents

|  |                    |
|--|--------------------|
| <b>PART I</b>  |                    |
| <a href="#">Item 1. Business</a>   | <a href="#">2</a>  |
| <a href="#">Item 1A. Risk Factors</a>  | <a href="#">25</a> |
| <a href="#">Item 1B. Unresolved Staff Comments</a>   | <a href="#">25</a> |
| <a href="#">Item 2. Properties</a>   | <a href="#">26</a> |
| <a href="#">Item 3. Legal Proceedings</a>  | <a href="#">26</a> |
| <a href="#">Item 4. Mine Safety Disclosures</a>  | <a href="#">26</a> |
| <b>PART II</b>   |                    |
| <a href="#">Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a> | <a href="#">26</a> |
| <a href="#">Item 6. [Reserved]</a>   | <a href="#">27</a> |
| <a href="#">Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>                        | <a href="#">27</a> |
| <a href="#">Item 7A. Quantitative and Qualitative Disclosures About Market Risk</a>  | <a href="#">36</a> |
| <a href="#">Item 8. Financial Statements and Supplementary Data</a>  | <a href="#">36</a> |
| <a href="#">Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>                         | <a href="#">36</a> |
| <a href="#">Item 9A. Controls and Procedures</a>   | <a href="#">37</a> |
| <a href="#">Item 9B. Other Information</a>   | <a href="#">37</a> |
| <a href="#">Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections</a>   | <a href="#">37</a> |
| <b>PART III</b>  |                    |
| <a href="#">Item 10. Directors, Executive Officers and Corporate Governance</a>  | <a href="#">37</a> |
| <a href="#">Item 11. Executive Compensation</a>  | <a href="#">37</a> |
| <a href="#">Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>              | <a href="#">38</a> |
| <a href="#">Item 13. Certain Relationships and Related Transactions, and Director Independence</a>                                   | <a href="#">38</a> |
| <a href="#">Item 14. Principal Accountant Fees and Services</a>  | <a href="#">38</a> |
| <b>PART IV</b>   |                    |
| <a href="#">Item 15. Exhibit and Financial Statement Schedules</a>   | <a href="#">39</a> |
| <a href="#">Item 16. Form 10-K Summary</a>   | <a href="#">39</a> |
| <b><a href="#">Index to Consolidated Financial Statements</a></b>  |                    |
| <a href="#">Consolidated Financial Statements</a>  | <a href="#">42</a> |
| <a href="#">Signatures</a>   | <a href="#">65</a> |

---

**Explanatory Note**

NSTS Bancorp, Inc. was formed to serve as the stock holding company for North Shore Trust and Savings (the “Bank”) in connection with the conversion of North Shore Trust and Savings, NSTS Financial Corporation and North Shore MHC, into the stock form of organization, which was completed on January 18, 2022. As of December 31, 2021, the conversion had not yet been completed and NSTS Bancorp, Inc. had not conducted any business activities other than organizational activities. As of December 31, 2021, NSTS Bancorp, Inc. had received \$87.3 million from potential investors in connection with the stock offering. These funds were held in a deposit account at the Bank. Accordingly, the audited financial statements, as well as other financial information at or prior to January 18, 2022, contained in this Annual Report on Form 10-K relate solely to the consolidated financial results of North Shore MHC and its consolidated subsidiaries, NSTS Financial Corporation and North Shore Trust and Savings.

**PART I**

**Item 1. Business**

**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;
- conditions relating to the COVID-19 pandemic, or other infectious disease outbreaks, including the severity and duration of the associated economic slowdown, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- major catastrophes such as tornadoes, floods or other natural disasters, the related disruption to local, regional and global economic activity and financial markets, and the impact that any of the foregoing may have on us and our customers and other constituencies;
- further data processing and other technological changes that may be more difficult or expensive than expected;
- success or consummation of new business initiatives may be more difficult or expensive than expected;
- the inability of third-party service providers to perform;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to continue to implement our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans;
- adverse changes in the securities markets;

[Table of Contents](#)

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to manage market risk, credit risk and operational risk in the current economic conditions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to hire and retain key employees; and
- our compensation expense associated with equity allocated or awarded to our employees.

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

***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”). NSTS Bancorp, Inc. was formed to serve as the stock holding company for North Shore Trust and Savings (the “Bank”) in connection with the conversion of North Shore Trust and Savings, NSTS Financial Corporation and North Shore MHC (collectively, the “Company,” “we” or “our”), into the stock form of organization, which was completed on January 18, 2022. As of December 31, 2021, the conversion had not yet been completed and NSTS Bancorp, Inc. had no assets or liabilities and had not conducted any business activities other than organizational activities. Since the conversion in January, other than holding the common stock of North Shore Trust and Savings, NSTS Bancorp, Inc. retained approximately 50% of the net cash proceeds of the stock offering, made a loan to the employee stock ownership plan of North Shore Trust and Savings, and has not engaged in any other business activities to date. NSTS Bancorp Inc.’s executive offices are located at 700 S. Lewis Ave., Waukegan, Illinois 60085, and its telephone number is (847) 336-4430.

NSTS Bancorp, Inc. completed its stock offering in connection with the conversion on January 18, 2022. NSTS Bancorp, Inc. sold 5,290,000 shares of common stock at \$10.00 per share in its subscription offering for gross proceeds of approximately \$52.9 million. In connection with the conversion, it also issued 107,959 shares of common stock and \$150,000 in cash to NSTS Charitable Foundation, Inc. Shares of NSTS Bancorp, Inc.’s common stock began trading on January 19, 2022 on The Nasdaq Capital Market under the trading symbol “NSTS.”

NSTS Bancorp, Inc., as the holding company of North Shore Trust and Savings, is authorized to pursue other business activities permitted by applicable laws and regulations, which may include the acquisition of banking and financial services companies. We currently have no agreements to acquire other financial institutions or financial services companies, although we may determine to do so in the future.

NSTS Bancorp, Inc.’s cash flow depends on earnings from the investment of the net offering proceeds and from any dividends it receives from North Shore Trust and Savings. North Shore Trust and Savings is subject to regulatory limitations on the amount of dividends that it may pay. Initially, NSTS Bancorp, Inc. will not own or lease any property, but instead pays North Shore Trust and Savings for the use of its premises, furniture and equipment. We employ as officers of NSTS Bancorp, Inc. only persons who are officers of North Shore Trust and Savings. However, we use the support staff of North Shore Trust and Savings from time to time. We pay North Shore Trust and Savings for the time devoted to NSTS Bancorp, Inc. by employees of North Shore Trust and Savings; however, these individuals are not separately compensated by NSTS Bancorp, Inc. NSTS Bancorp, Inc. may hire additional employees, as appropriate, to the extent it expands its business in the future.

***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. We have a loan production office in Chicago, Illinois. Our primary business activity is attracting deposits from the general public and using those funds to originate one- to four-family residential mortgage loans and purchase investments. We are subject to comprehensive regulation and examination by the Office of the Comptroller of the Currency (the “OCC”).

***Conversion of North Shore MHC***

Pursuant to the conversion, North Shore MHC converted from the mutual holding company to the stock holding company corporate structure. Upon the completion of the conversion on January 18, 2022, North Shore MHC and NSTS Financial Corporation ceased to exist, and the Bank became a wholly owned subsidiary of NSTS Bancorp, Inc.

***Our Business and Franchise***

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

North Shore Trust and Savings is primarily engaged in attracting deposits from the general public and using those funds to invest in loans and securities. Our principal sources of funds are customer deposits, repayments of loans, maturities of investments and funds borrowed from outside sources such as the FHLB of Chicago (“FHLB”). These funds are primarily used for the origination of loans, including one- to four-family residential first mortgage loans, commercial real estate mortgage loans, multi-family residential mortgage loans and consumer loans. North Shore Trust and Savings derives its income principally from interest earned on loans and investment securities and, to a lesser extent, from fees received in connection with the origination of loans, service charges on deposit accounts and for other services. We invest in bank owned life insurance (“BOLI”) to provide us with a funding source for our benefit plan obligations. BOLI also generally provides us noninterest income that is non-taxable. North Shore Trust and Savings’ primary expenses are interest expense on deposits and borrowings and general operating expenses.

We are an active originator of residential home mortgage loans in our market area. North Shore Trust and Savings is a traditional thrift institution with an emphasis on long-term one- to four-family residential first mortgage loans secured by residences located in our traditional market area centered in Waukegan, Illinois. As of December 31, 2021, \$88.0 million, or 91.2% of our total loan portfolio, consisted of one- to four-family residential mortgage loans. Our business strategy is to enhance our products and services, continue to focus on long-term one- to four-family residential first mortgage loans, and to increase our holdings of commercial real estate and multi-family residential real estate loans. Commercial real estate loans are deemed attractive due to their generally higher yields and shorter anticipated lives compared to one- to four-family residential mortgage loans.

Our headquarters office is located at 700 S. Lewis Avenue, Waukegan, Illinois, and our telephone number is (847) 336-4430. We maintain a website at [www.northshoretrust.com](http://www.northshoretrust.com), and we provide our customers with on-line banking services. Information on our website should not be considered a part of this filing.

## Market Area and Competition

We are headquartered in Waukegan, Illinois. In addition to our main office, we have two additional full service offices in Waukegan and Lindenhurst, Illinois, respectively, and one loan production office in Chicago, Illinois. We currently are evaluating sites for up to three additional loan production branch offices in surrounding communities to be established over the next few years.

Our market area consists of Lake County and Cook County which are located in Illinois, and Kenosha County which is located in Wisconsin. The largest employers in Lake County are pharmaceutical and healthcare companies, including Abbott Laboratories, AbbVie, and Baxter International. The largest employers in Cook County are government entities, including the U.S. Government, Chicago Public Schools, and the City of Chicago. Kenosha County's largest employers include Amazon, Uline, and Snap-on. Overall, Lake, Cook, and Kenosha counties have a diversified employment base which helps to maintain a relatively stable economy.

We face significant competition in originating loans and attracting deposits. This competition stems primarily from credit unions, commercial banks, other savings banks and savings associations, and mortgage-banking companies. Many of the financial service providers operating in our market area are significantly larger and have greater financial resources than we do. We face additional competition for deposits from short-term money market funds and other corporate and government securities funds, mutual funds and from other non-depository financial institutions such as brokerage firms and insurance companies.

## Lending Activities

**General.** As of December 31, 2021, our net loan portfolio totaled \$96.5 million or 28.3% of total assets. Our principal lending activity has been the origination of loans collateralized by one- to four-family residential real estate loans located in our market area. We also originate commercial real estate, multi-family residential mortgage loans and consumer loans, consisting of loans secured by deposits at North Shore Trust and Savings and other collateral and unsecured personal loans.

**Loan Portfolio Composition.** The following table shows the composition of our loan portfolio by type of loan at the dates indicated.

|                                   | December 31,     |                |                  |                |
|-----------------------------------|------------------|----------------|------------------|----------------|
|                                   | 2021             |                | 2020             |                |
|                                   | Amount           | %              | Amount           | %              |
| (Dollars in thousands)            |                  |                |                  |                |
| First mortgage loans:             |                  |                |                  |                |
| One- to four-family residential   | \$ 88,028        | 91.22%         | \$ 87,198        | 88.38%         |
| Multi-family                      | 3,497            | 3.62%          | 5,736            | 5.82%          |
| Commercial real estate            | 4,604            | 4.77%          | 5,340            | 5.41%          |
| <b>Total first mortgage loans</b> | <b>96,129</b>    |                | <b>98,274</b>    |                |
| Consumer loans                    | 372              | 0.39%          | 385              | 0.39%          |
| <b>Total loans</b>                | <b>96,501</b>    | <b>100.00%</b> | <b>98,659</b>    | <b>100.00%</b> |
| Net deferred loan costs           | 812              |                | 666              |                |
| Allowance for loan losses         | (779)            |                | (870)            |                |
| <b>Total loans, net</b>           | <b>\$ 96,534</b> |                | <b>\$ 98,455</b> |                |

**Contractual Terms to Final Maturities.** The following table shows the scheduled contractual maturities of our loans as of December 31, 2021, before giving effect to net deferred loan costs and the allowance for loan losses. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. The amounts shown below do not take into account loan prepayments.

|   | Family Residential     | Multi-Family Residential | One- to Four-Commercial Real Estate | Consumer      | Total            |
|---|------------------------|--------------------------|-------------------------------------|---------------|------------------|
|   | (Dollars in thousands) |                          |                                     |               |                  |
| Amounts due after December 31, 2021 in: |                        |                          |                                     |               |                  |
| One year or less                        | \$ 328                 | \$ —                     | \$ —                                | \$ 33         | \$ 361           |
| After one year through two years        | 147                    | —                        | 274                                 | 26            | 447              |
| After two years through three years     | 216                    | —                        | 46                                  | 8             | 270              |
| After three years through five years    | 809                    | —                        | —                                   | 280           | 1,089            |
| After five years through ten years      | 5,279                  | —                        | 203                                 | 21            | 5,503            |
| After ten years through 15 years        | 18,027                 | 376                      | 3,275                               | —             | 21,678           |
| After 15 years                          | 63,222                 | 3,121                    | 806                                 | 4             | 67,153           |
| <b>Total</b>                            | <b>\$ 88,028</b>       | <b>\$ 3,497</b>          | <b>\$ 4,604</b>                     | <b>\$ 372</b> | <b>\$ 96,501</b> |



[Table of Contents](#)

The following table shows the dollar amount of our loans as of December 31, 2021, due after December 31, 2022, as shown in the preceding table, which have fixed interest rates or which have floating or adjustable interest rates.

|                                 | <u>Fixed-Rate</u> | <u>Floating or<br/>Adjustable-Rate</u><br>(Dollars in thousands) | <u>Total at<br/>December 31, 2021</u> |
|---------------------------------|-------------------|--|---------------------------------------|
| One- to four-family residential | \$ 76,909         | \$ 10,791  | \$ 87,700                             |
| Multi-family residential        | —                 | 3,497  | 3,497                                 |
| Commercial real estate          | 453               | 4,151  | 4,604                                 |
| Consumer                        | 69                | 270  | 339                                   |
| Total                           | <u>\$ 77,431</u>  | <u>\$ 18,709</u>   | <u>\$ 96,140</u>                      |

The following table shows the dollar amount of our loans as of December 31, 2020, due after December 31, 2021 which have fixed interest rates or which have floating or adjustable interest rates.

|                                 | <u>Fixed-Rate</u> | <u>Floating or<br/>Adjustable-Rate</u><br>(Dollars in thousands) | <u>Total at<br/>December 31, 2020</u> |
|---------------------------------|-------------------|--|---------------------------------------|
| One- to four-family residential | \$ 70,962         | \$ 14,641  | \$ 85,603                             |
| Multi-family residential        | —                 | 5,737  | 5,737                                 |
| Commercial real estate          | 1,056             | 4,284  | 5,340                                 |
| Consumer                        | 49                | 230  | 279                                   |
| Total                           | <u>\$ 72,067</u>  | <u>\$ 24,892</u>   | <u>\$ 96,959</u>                      |

**Loan Originations, Participations and Sales.** Our lending activities are subject to underwriting standards and loan origination procedures established by our board of directors and management. Loan originations are obtained through a variety of sources, primarily existing customers as well as new customers obtained from referrals and local advertising and promotional efforts. One- to four-family residential mortgage loan applications and consumer loan applications are taken at any of North Shore Trust and Savings' branch offices or customers may submit an application on-line. Applications for other loans typically are taken personally by one of our loan officers, although they may be received by a branch office initially and then referred to a loan officer. All loan applications are processed and underwritten centrally at our branch office located in Lindenhurst, Illinois.

Our one- to four-family residential first mortgage loans are written on standardized documents used by the Federal Home Loan Mortgage Corporation ("Freddie Mac") and Federal National Mortgage Association ("Fannie Mae"). Our underwriting standards generally require that new one- to four-family residential mortgage loans conform to secondary market standards but a portion of our one- to four-family residential mortgage loans are considered "non-conforming" due to factors such as the borrower's job status or income, the condition or age of the residence or other factors. For loans which are secured by real estate, property valuations are undertaken by an independent third-party appraiser approved by our board of directors.

Consistent with our interest rate risk strategy, we have sold, on a servicing released basis a significant portion of our fixed rate one- to four-family residential mortgage loans. We consider our balance sheet as well as market conditions on an ongoing basis in making decisions as to whether to hold loans we originate for investment or to sell such loans choosing the strategy that is most advantageous to us from a profitability and risk management standpoint.

In addition to originating loans, although we have not previously purchased participation interests in commercial real estate mortgage loans, we will consider purchasing such participation interests in modest amounts from other financial institutions in our market area. Such participations will be reviewed for compliance with our underwriting criteria before they are purchased. We will actively monitor the performance of such loans made in the future through the receipt of regular reports from the lead lender regarding the loan's performance, physically inspecting the loan security property on a periodic basis, discussing the loan with the lead lender on a regular basis and receiving copies of updated financial statements from the borrower.

**Loan Originations and Sales**

The following table shows our total loans originated, sold and repaid during the periods indicated.

|   | <b>Year Ended December 31,</b> |             |
|---|--------------------------------|-------------|
|   | <b>2021</b>                    | <b>2020</b> |
| <b>(Dollars in thousands)</b>                                 |                                |             |
| Loan originations:  |                                |             |
| One- to four-family residential                               | \$ 43,719                      | \$ 52,674   |
| Multi-family residential                                      | —                              | —           |
| Commercial real estate  | 1,390                          | 3,527       |
| Consumer  | 70                             | 334         |
| Total loan originations                                       | \$ 45,179                      | \$ 56,535   |
| Loans sold  | 21,170                         | 36,476      |
| Loan principal repayments                                     | 27,848                         | 17,534      |
| Total loans sold and principal repayments                     | \$ 49,018                      | \$ 54,010   |
| Increase or (decrease) due to other items, net <sup>(1)</sup> | 50                             | (497)       |
| Net increase (decrease) in loans, net and loans held for sale | \$ (3,789)                     | \$ 2,028    |

(1) Other items consist of deferred fees, the change in allowance for loan losses and the transfer of loans to real estate owned.

**One- to Four-Family Residential Mortgage Lending.** One of our primary lending activities continues to be the origination of loans secured by first mortgages on one- to four-family residences in our market area. As of December 31, 2021, \$88.0 million, or 91.2% of our total loan portfolio, consisted of one- to four-family residential mortgage loans.

Applications for one- to four-family residential mortgage loans are accepted at any of our banking offices for processing, which consists primarily of obtaining all documents required to complete the underwriting, which includes making a determination whether the loan meets our underwriting standards. While our one- to four-family residential first mortgage loans are written on standardized documents used by Freddie Mac and Fannie Mae, our underwriting standards do not require that new one- to four-family residential mortgage loans conform to secondary market standards. A small portion of our one- to four-family residential mortgage loans are considered “non-conforming”, due to factors such as the borrower’s job status or income, the condition or age of the residence or other factors and are not readily saleable into the secondary mortgage market. We currently originate fixed-rate, fully amortizing mortgage loans with maturities up to 30 years. We also offer adjustable rate mortgage (“ARM”) loans where the interest rate either adjusts on an annual basis or is fixed for the initial three or five years and then adjusts annually. As of December 31, 2021, approximately 12.3% of our one- to four-family residential mortgage loans maturing after December 31, 2022 were ARM loans. Our ARM loans have a cap on any increase or decrease in the interest rate of up to 2% at any adjustment date and a 5% cap above or below the initial interest rate over the life of the loan. The interest rate on our ARM loans is based on the one-year Treasury or SOFR.

Although adjustable-rate one- to four-family residential real estate loans may reduce our vulnerability to changes in market interest rates because they periodically reprice, as interest rates increase, the required payments due from the borrower also increase (subject to rate caps), increasing the potential for default by the borrower. At the same time, the ability of the borrower to repay the loan and the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustments of the contractual interest rate are also limited by the maximum periodic and lifetime rate adjustments permitted by our loan documents. As a result, the effectiveness of adjustable-rate one- to four-family residential real estate loans in compensating for changes in market interest rates may be limited during periods of rapidly rising interest rates.

We underwrite one- to four-family residential mortgage loans with loan-to-value ratios which generally do not exceed 97% in the case of ARM loans and 95% in the case of fixed-rate loans, provided that the borrower obtains private mortgage insurance on loans that exceed 80% of the appraised value of the secured property. We also require that title insurance, hazard insurance and, if appropriate, flood insurance be maintained on all properties securing real estate loans. We require that a licensed appraiser from our list of approved appraisers perform and submit to us an appraisal on all properties securing one- to four-family first mortgage loans. Our mortgage loans generally include due-on-sale clauses which provide us with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property. Due-on-sale clauses are an important means of adjusting the yields of fixed-rate mortgage loans in portfolio and we generally exercise our rights under these clauses.

**Multi-Family Residential and Commercial Real Estate Lending.** As of December 31, 2021, our commercial real estate and multi-family residential loans amounted to an aggregate of \$8.1 million, or 8.4% of our total loan portfolio at such date. We plan to moderately increase our emphasis on commercial real estate loans and multi-family residential real estate loans as they generally have shorter terms to maturity, improving North Shore Trust and Savings’ interest rate risk profile, and provide higher yields than one- to four-family residential mortgage loans.

At December 31, 2021, our multi-family residential mortgage loans amounted to \$3.5 million, or 3.6% of the total loan portfolio. Our multi-family residential mortgage loans, which are underwritten and approved in a manner consistent with our commercial real estate loans, are secured by residential properties with more than four units or secured by multiple one- to four-family residential properties located in our market area. At December 31, 2021, our largest multi-family residential mortgage loan was a \$912,000 loan secured by various one- to four-family investment homes and one multi-family apartment building located in Waukegan and North Chicago, Illinois, and was performing in accordance with its terms. At December 31, 2021, we had a total of 10 multi-family residential mortgage loans and the average size of our multi-family residential mortgage loans was approximately \$350,000.

Our commercial real estate loan portfolio amounted to \$4.6 million, or 4.8% of the total loan portfolio, at December 31, 2021. These commercial real estate loans included 14 loans secured primarily by investor properties, which include multiple one- to four-family residences. Additionally, North Shore Trust and Savings has two commercial real estate loans secured by retail frontage. At such date, the average commercial real estate loan size was \$329,000. The five largest commercial real estate loans outstanding were \$1.9 million, \$1.3 million, \$323,000, \$248,000 and \$200,000, and all of such loans were paying in accordance with all their contractual terms.

Although terms for commercial real estate and multi-family residential loans vary, our underwriting standards generally allow for terms not exceeding 30 years and loan-to-value ratios of not more than 75%. Interest rates are typically adjustable, based upon designated market indices such as *The Wall Street Journal* prime rate, or fixed-rate, and fees are charged to the borrower at the origination of the loan. The actual lives of such loans generally are less than their contractual terms to maturity due to prepayments and re-financings. Generally, we obtain personal guarantees of the principals as additional collateral for commercial real estate and multi-family residential loans.

Commercial real estate and multi-family residential lending involve a greater degree of risk than one- to four-family residential lending. These risks include larger loans to individual borrowers and loan payments that are dependent upon the successful operation of the project or the borrower's business. These risks can be affected by supply and demand conditions of rental housing units, office and retail space and other commercial space in the project's market area. We attempt to minimize these risks for loans we originate by soliciting loans from businesses with existing operating performance. We also use conservative debt coverage ratios in our underwriting, and periodically monitor the operation of the business or project and the physical condition of the property. At December 31, 2021, none of our commercial real estate or multi-family loans were delinquent more than 30 days, nor were any on non-accrual. We have had no charge-offs of commercial real estate and multi-family residential loans for the years ended December 31, 2021 and 2020.

Various aspects of commercial real estate and multi-family residential transactions are evaluated in an effort to mitigate the additional risk in these types of loans. In our underwriting procedures, consideration is given to the stability of the property's cash flow history, future operating projections, current and projected occupancy levels, location and physical condition. Generally, we impose a debt service ratio (the ratio of net cash flows from operations before the payment of debt service to debt service) of not less than 1.25x in the case of commercial real estate and multi-family residential loans. We also evaluate the credit and financial condition of the borrower, and if applicable, the guarantor. Appraisal reports prepared by independent appraisers are obtained on each loan to substantiate the property's market value and are reviewed by us prior to the closing of the loan.

**Consumer Lending.** In our efforts to provide a full range of financial services to our customers, we offer various types of consumer loans. Our consumer loans amounted to \$372,000, or 0.4%, of our total loan portfolio at December 31, 2021. At December 31, 2021, our consumer loans were comprised of loans secured by deposits, auto loans and unsecured personal loans.

Consumer loans generally have higher interest rates and shorter terms than residential loans; however, they have additional credit risk due to the type of collateral securing the loan or in some cases the absence of collateral. For the year ended December 31, 2021, we charged off a \$99,000 unsecured consumer loan because it was six months past due but our collection efforts are continuing. There were no consumer charge-offs during the year ended December 31, 2020.

**Loan Approval Procedures and Authority.** Our board of directors establishes North Shore Trust and Savings' lending policies and procedures. Our Loan Policy is reviewed on at least an annual basis by our management team in order to propose modifications as a result of market conditions, regulatory changes and other factors. All modifications must be approved by our Board of Directors.

Various officers or combinations of officers of North Shore Trust and Savings have the authority within specifically identified limits to approve new loans. As of December 31, 2021, the maximum loan amount that may be approved by an individual officer is \$553,100, which is consistent with secondary market limits for conforming loans. Loans up to \$750,000 are reviewed by our management loan committee, with a minimum of two members' approval. Our board level loan committee has authority to approve loans up to \$2.0 million. All other loans must be approved by the board of directors of North Shore Trust and Savings.

## Asset Quality

**General.** One of our key objectives has been, and continues to be, maintaining a high level of asset quality. In addition to maintaining credit standards for new originations which we believe are sound, we are proactive in our loan monitoring, collection and workout processes in dealing with delinquent or problem loans.

When a borrower fails to make a scheduled payment, we attempt to cure the deficiency by making personal contact with the borrower. Initial contacts are generally made within 30 days after the date the payment is due. In most cases, deficiencies are promptly resolved. If the delinquency continues, late charges are assessed, and additional efforts are made to collect the deficiency. All loans which are designated as "special mention," substandard, doubtful or delinquent 90 days or more are reported to the board of directors of North Shore Trust and Savings on a monthly basis.

We stop accruing interest on loans ("non-accrual" loans) at the time the loan is 90 days past due unless the credit is adequately collateralized and in process of collection. Interest income is not accrued on these loans until the borrower's financial condition and payment record demonstrate an ability to service the debt.

Property acquired through foreclosure is initially recorded at fair value at the date of acquisition, which is fair value of the related assets at the date of foreclosure, less estimated costs to sell. Thereafter, if there is a further deterioration in value, we charge earnings for the diminution in value. Our policy is to obtain an appraisal on real estate subject to foreclosure proceedings prior to the time of foreclosure. We obtain re-appraisals on a periodic basis, generally on at least an annual basis, on foreclosed properties. We also conduct inspections on foreclosed properties.

We account for our impaired loans in accordance with generally accepted accounting principles. Loans are reviewed on a regular basis. Loans are listed on the "watch/special mention list" where management has some concern that the collateral or debt service ability may not be adequate, although the collectability of the contractual loan payments is still probable. If a loan deteriorates in asset quality, the classification is changed to "substandard," "doubtful" or "loss" depending on the circumstances and the evaluation. When a loan is determined to be impaired, the measurement of the loan in the allowance for loan losses is based on present value of expected future cash flows, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. As of December 31, 2021, and 2020, loans identified as impaired and individually evaluated for impairment, amounted to \$1.1 million and \$2.5 million, respectively.

Federal regulations and our policies require that we utilize an internal asset classification system as a means of reporting problem and potential problem assets. We have incorporated an internal asset classification system, consistent with federal banking regulations, as a part of our credit monitoring system. We currently classify problem and potential problem assets as "special mention," "substandard," "doubtful" or "loss" assets. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated "special mention."

General valuation allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allocations, have not been allocated to specific problem assets. When an insured institution classifies one or more assets, or portions thereof, as "loss," it is required to charge off such amount.

Our allowance for loan losses includes a portion which is allocated by type of loan, based primarily upon our periodic reviews of the risk elements within the various categories of loans. The specific components relate to certain impaired loans. The general components cover non-classified loans and are based on historical loss experience adjusted for qualitative factors in response to changes in risk and market conditions. Our management believes that, based on information currently available, the allowance for loan losses is maintained at a level which covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. However, actual losses are dependent upon future events and, as such, further additions to the level of the allowance for loan losses may become necessary.

We review and classify loans on no less frequently than a quarterly basis and our board of directors is provided with reports on our classified and criticized assets. We classify assets in accordance with the management guidelines described above. At December 31, 2021, we had no loans classified as "doubtful" or "loss," \$102,000 of loans classified as "substandard" and \$45,000 of loans designated as "special mention."

A savings institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by Federal bank regulators which can order the establishment of additional general or specific loss allowances. The federal banking agencies have adopted an interagency policy statement on the allowance for loan losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management analyze all significant factors that affect the collectability of the portfolio in a reasonable manner; and that management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Our management believes that, based on information currently available, its allowance for loan losses is maintained at a level which covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. However, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.

**Troubled Debt Restructurings.** We occasionally modify loans to extend the term or make other concessions to help a borrower stay current on his or her loan and to avoid foreclosure. We consider modifications only after analyzing the borrower's current repayment capacity, evaluating the strength of any guarantors based on documented current financial information, and assessing the current value of any collateral pledged. We generally do not forgive principal or interest on loans but may do so if it is in our best interest and increases the likelihood that we can collect the remaining principal balance. We may modify the terms of loans to lower interest rates (which may be at below market rates), to provide for fixed interest rates on loans where fixed rates are otherwise not available, to provide for longer amortization schedules, or to provide for interest-only terms. These modifications are made only when a workout plan has been agreed to by the borrower that we believe is reasonable and attainable and in our best interests. As of December 31, 2021, our loans which were classified as TDRs and were on accrual status and not more than 90 days past due amounted to \$1.0 million. All of such TDRs were performing in accordance with their restructured terms at December 31, 2021 and 2020.

**Delinquent Loans.** The following table shows the delinquencies in our loan portfolio as of the dates indicated.

|                                 | 31-89 Days<br>Past Due<br>and<br>Accruing | 90 Days or<br>Greater Past<br>Due and<br>Accruing | Non-Accrual | Total Past<br>Due and<br>Non-Accrual | Current   | Total<br>Loan<br>Balance |
|---------------------------------|---|---|-------------|--------------------------------------|-----------|--------------------------|
| (Dollars in thousands)          |   |   |             |                                      |           |                          |
| <b>December 31, 2021</b>        |   |   |             |                                      |           |                          |
| One- to four-family residential | \$ —                                      | \$ 41   | \$ 102      | \$ 143                               | \$ 87,885 | \$ 88,028                |
| Multi-family                    | —   | —   | —           | —                                    | 3,497     | 3,497                    |
| Commercial real estate          | —   | —   | —           | —                                    | 4,604     | 4,604                    |
| Consumer                        | —   | —   | —           | —                                    | 372       | 372                      |
| Total                           | \$ —                                      | \$ 41   | \$ 102      | \$ 143                               | \$ 96,358 | \$ 96,501                |
| <b>December 31, 2020</b>        |   |   |             |                                      |           |                          |
| One- to four-family residential | \$ —                                      | \$ 75   | \$ 280      | \$ 355                               | \$ 86,843 | \$ 87,198                |
| Multi-family                    | —   | —   | —           | —                                    | 5,736     | 5,736                    |
| Commercial real estate          | —   | —   | —           | —                                    | 5,340     | 5,340                    |
| Consumer                        | 99  | —   | —           | 99                                   | 286       | 385                      |
| Total                           | \$ 99                                     | \$ 75   | \$ 280      | \$ 454                               | \$ 98,205 | \$ 98,659                |

The following table sets forth the amounts of our classified loans at the dates indicated. There was no related specific valuation allowance in the allowance for loan losses on our classified loans at December 31, 2021 and 2020.

|                        | At December 31, |        |
|------------------------|-----------------|--------|
|                        | 2021            | 2020   |
| (Dollars in thousands) |                 |        |
| Substandard loans      | \$ 102          | \$ 280 |
| Doubtful loans         | —               | —      |
| Loss loans             | —               | —      |
| Total classified loans | \$ 102          | \$ 280 |

[Table of Contents](#)

In addition to classified loans, our other real estate owned, (“OREO”) was classified as substandard. There were no OREO properties as of December 31, 2021 and 2020.

**Non-performing Assets.** The following table shows the amounts of our non-performing assets, which include non-accruing loans, accruing loans 90 days or more past due and real estate owned at the dates indicated, and our performing TDRs.

|   | At December 31, |           |
|---|-----------------|-----------|
|   | 2021            | 2020      |
| (Dollars in thousands)  |                 |           |
| <b>Non-accruing loans:</b>  |                 |           |
| One-to four-family residential  | \$ 102          | \$ 280    |
| Multi-family residential  | —               | —         |
| Commercial real estate  | —               | —         |
| Consumer  | —               | —         |
| Total non-accruing loans  | \$ 102          | \$ 280    |
| <b>Accruing loans 90 days or more past due:</b>                       |                 |           |
| One-to four-family residential  | 41              | 75        |
| Multi-family residential  | —               | —         |
| Commercial real estate  | —               | —         |
| Consumer  | —               | —         |
| Total accruing loans 90 days or more past due                         | 41              | 75        |
| Total non-performing loans  | 143             | 355       |
| <b>Other real estate owned</b>  |                 |           |
| Total non-performing assets   | 143             | 355       |
| <b>Performing troubled debt restructurings</b>                        |                 |           |
| Total non-performing assets and performing TDRs                       | 1,035           | 1,824     |
| Total loans outstanding   | 1,178           | 2,179     |
| Total assets outstanding  | \$ 96,501       | \$ 98,659 |
| Total non-accruing loans as a percentage of total loans outstanding   | 340,515         | 242,219   |
| Total non-performing loans as a percentage of total loans outstanding | 0.11%           | 0.28%     |
| Total non-performing loans as a percentage of total assets            | 0.15%           | 0.36%     |
| Total non-performing loans as a percentage of total assets            | 0.04%           | 0.15%     |
| Total non-performing assets as a percentage of total assets           | 0.04%           | 0.15%     |

**CARES Act.** Under the CARES Act, loans less than 30 days past due as of December 31, 2019 will be considered current for COVID-19 modifications. Similarly, the Financial Accounting Standards Board has confirmed that short-term modifications made on a good-faith basis in response to COVID-19 to loan customers who were current prior to any relief will not be considered troubled debt restructurings. We administered loan payment modification requests on a case-by-case basis. Since the beginning of the program, through December 31, 2021, we modified 50 loans with principal balances totaling \$9.7 million. At December 31, 2021, all of our COVID-19 modifications were in repayment.

**Allowance for Loan Losses.** The following table shows changes in our allowance for loan losses during the periods presented.

|   | At or for the Year Ended |           |
|---|--------------------------|-----------|
|   | December 31,             |           |
|   | 2021                     | 2020      |
| (Dollars in thousands)  |                          |           |
| Total loans outstanding at end of period  | \$ 96,501                | \$ 98,659 |
| Total non-accrual loans at end of period  | 102                      | 280       |
| Total non-performing loans at end of period   | 143                      | 355       |
| Total average loans outstanding   | 96,843                   | 101,491   |
| Allowance for loan losses, beginning of period  | 870                      | 389       |
| Provision for loan losses   | (23)                     | 464       |
| <b>Charge-offs:</b>   |                          |           |
| One-to four-family residential  | —                        | —         |
| Multi-family residential  | —                        | —         |
| Commercial real estate  | —                        | —         |
| Consumer  | 99                       | —         |
| Total charge-offs   | \$ 99                    | \$ —      |
| <b>Recoveries on loans previously charged-off:</b>  |                          |           |
| One-to four-family residential  | \$ (31)                  | \$ (17)   |
| Multi-family residential  | —                        | —         |
| Commercial real estate  | —                        | —         |
| Consumer  | —                        | —         |
| Total recoveries  | \$ (31)                  | \$ (17)   |
| Net charge-offs (recoveries)  | \$ 68                    | \$ (17)   |
| Allowance for loan losses, end of period  | \$ 779                   | \$ 870    |
| Allowance for loan losses as a percent of non-performing loans                            | 544.76%                  | 245.07%   |
| Allowance for loan losses as a percent of total loans outstanding                         | 0.81%                    | 0.88%     |
| Allowance for loan losses as a percent of total non-accrual loans                         | 763.73%                  | 310.71%   |
| Ratio of net charge-offs during the period to average loans outstanding during the period | 0.07%                    | -0.02%    |

[Table of Contents](#)

The allowance for loan losses is established through a provision for loan losses. We maintain the allowance at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses on no less than a quarterly basis in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. Our evaluation process includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of our loans, the value of collateral securing the loan, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, national and local economic conditions and industry experience. Such risk ratings are periodically reviewed by management and revised as deemed appropriate. At December 31, 2021, and 2020, our allowance for loan losses amounted to \$779,000 and \$870,000 respectively. In our evaluation of the allowance for loan losses in 2021 and 2020, particular consideration was given to the continuing economic impact of the COVID-19 pandemic. The establishment of the allowance for loan losses is significantly affected by uncertainties and management judgment and there is a likelihood that different amounts would be reported under different conditions or assumptions. Various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require North Shore Trust and Savings to make additional provisions for estimated loan losses based upon judgments different from those of management.

The following table shows how our allowance for loan losses is allocated by type of loan at each of the dates indicated.

|                                | At December 31,        |   |   |                     |   |   |
|--------------------------------|------------------------|---|---|---------------------|---|---|
|                                | 2021                   |   |   | 2020                |   |   |
|                                | Amount of Allowance    | Percent of Allowance to Total Allowance | Percent of Loans in Category to Total Loans | Amount of Allowance | Percent of Allowance to Total Allowance | Percent of Loans in Category to Total Loans |
|                                | (Dollars in thousands) |   |   |                     |   |   |
| One-to four-family residential | \$ 675                 | 86.65%                                  | 91.22%                                      | \$ 798              | 91.72%                                  | 88.38%                                      |
| Multi-family residential       | 69                     | 8.86%                                   | 3.62%                                       | 29                  | 3.33%                                   | 5.82%                                       |
| Commercial real estate         | 25                     | 3.21%                                   | 4.77%                                       | 38                  | 4.37%                                   | 5.41%                                       |
| Consumer                       | 10                     | 1.28%                                   | 0.39%                                       | 5                   | 0.58%                                   | 0.39%                                       |
| Total                          | \$ 779                 | 100.00%                                 | 100.00%                                     | \$ 870              | 100.00%                                 | 100.00%                                     |

**Securities Available for Sale**

We have authority to invest in various types of securities, including mortgage-backed securities, U.S. Treasury obligations, securities of various federal agencies and of state and municipal governments, time deposits at federally insured banks and savings institutions, corporate debt obligations and federal funds. Our investment strategy is established by the board of directors.

|  | At December 31,        |              |                |              |
|--|------------------------|--------------|----------------|--------------|
|  | 2021                   |              | 2020           |              |
|  | Amortized Cost         | Market Value | Amortized Cost | Market Value |
|  | (Dollars in thousands) |              |                |              |
| Securities available-for-sale          |                        |              |                |              |
| Mortgage-backed securities             | \$ 42,501              | \$ 42,148    | \$ 42,232      | \$ 43,094    |
| U.S. Government and agency obligations | 10,058                 | 10,053       | 7,011          | 7,147        |
| Municipal obligations                  | 17,591                 | 18,000       | 10,480         | 10,980       |
| Collateralized mortgage obligations    | 30,913                 | 30,749       | 19,931         | 20,399       |
| Total securities available-for-sale    | \$ 101,063             | \$ 100,950   | \$ 79,654      | \$ 81,620    |

The investment policy is designed primarily to manage the interest rate sensitivity of the assets and liabilities, to generate a favorable return without incurring undue interest rate and credit risk, to complement the lending activities and to provide and maintain liquidity. The current investment policy generally permits investments in debt securities issued by the U.S. government and U.S. agencies, municipal bonds, and corporate debt obligations, as well as investments in preferred and common stock of government agencies and government sponsored enterprises such as Fannie Mae, Freddie Mac and the FHLB of Chicago. The policy also permits investments in mortgage-backed securities, including pass-through securities issued and guaranteed by Fannie Mae, Freddie Mac and the Government National Mortgage Association (“Ginnie Mae”).

As of December 31, 2021, our securities available-for-sale portfolio totaled \$101.0 million, or 29.6% of total assets at such date. The largest component of our investment securities portfolio at December 31, 2021 was investment in pass-through mortgage-backed securities issued by Fannie Mae, Ginnie Mae and Freddie Mac, which amounted to \$42.1 million, followed by collateralized mortgage obligations issued by Fannie Mae, Ginnie Mae and Freddie Mac, which amounted to \$30.7 million. Our investment in U.S. government and federal agency obligations as of December 31, 2021, were \$10.1 million and our investment in municipal obligations as of December 31, 2021, were \$18.0 million.

Ginnie Mae is a government agency within the Department of Housing and Urban Development which is intended to help finance government-assisted housing programs. Ginnie Mae securities are backed by loans insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. The timely payment of principal and interest on Ginnie Mae securities is guaranteed by Ginnie Mae and backed by the full faith and credit of the U.S. Government. Freddie Mac is a private corporation chartered by the U.S. Government. Freddie Mac issues participation certificates backed principally by conventional mortgage loans. Freddie Mac guarantees the timely payment of interest and the ultimate return of principal on participation certificates. Fannie Mae is a private corporation chartered by the U.S. Congress with a mandate to establish a secondary market for mortgage loans. Fannie Mae guarantees the timely payment of principal and interest on Fannie Mae securities. Freddie Mac and Fannie Mae securities are not backed by the full faith and credit of the U.S. Government.

Investments in mortgage-backed securities involve the risk that actual prepayments will be greater than estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

Investment securities are classified at the time of acquisition as securities available for sale, held to maturity or trading. Securities classified as held to maturity must be purchased with the intent and ability to hold that security until its final maturity and can be sold prior to maturity only under rare circumstances. Held-to-maturity securities are accounted for based upon the amortized cost of the security. Available-for-sale securities can be sold at any time based upon needs or market conditions. Available-for-sale securities are accounted for at fair value, with unrealized gains and losses on these securities, net of income tax provisions, reflected as accumulated other comprehensive income. At December 31, 2021, all securities were classified as securities available for sale. At December 31, 2021, we had no investments in a single issuer other than securities issued by U.S. Government agencies or U.S. Government sponsored enterprises, which had an aggregate book value in excess of 10% of our stockholders’ equity.

The following table sets forth the amount of investment securities which mature during each of the periods indicated and the weighted average yields for each range of maturities as of December 31, 2021. 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 based on average remaining life. The below yields represent tax equivalent yield.

|  | <b>Amounts at December 31, 2021, Which Mature In</b> |   |  |                          |                   |
|--|--|---|--|--------------------------|-------------------|
|  | <b>One Year<br/>or Less</b>                          | <b>After One<br/>through Five<br/>Years</b> | <b>After Five<br/>through 10<br/>Years</b> | <b>Over 10<br/>Years</b> | <b>Total</b>      |
|  | (Dollars in thousands)                               |   |  |                          |                   |
| Securities available for sale:         |  |   |  |                          |                   |
| Mortgage-backed securities             | \$ 356   | \$ 29,375                                   | \$ 12,417                                  | \$ —                     | \$ 42,148         |
| U.S. Government and agency obligations | —  | 5,587                                       | 4,466                                      | —                        | 10,053            |
| Municipal obligations                  | 1,631  | 3,941                                       | 2,244                                      | 10,184                   | 18,000            |
| Collateralized mortgage obligations    | 1,064  | 16,097                                      | 11,976                                     | 1,612                    | 30,749            |
| Total                                  | <u>\$ 3,051</u>                                      | <u>\$ 55,000</u>                            | <u>\$ 31,103</u>                           | <u>\$ 11,796</u>         | <u>\$ 100,950</u> |
| Weighted average yield:                |  |   |  |                          |                   |
| Mortgage-backed securities             | 1.26%  | 1.08%                                       | 1.45%                                      | N/A                      | 1.19%             |
| U.S. Government and agency obligations | N/A  | 2.05  | 1.20                                       | N/A                      | 1.66              |
| Municipal obligations                  | 3.48   | 2.95  | 2.90                                       | 2.40                     | 2.68              |
| Collateralized mortgage obligations    | 2.11   | 1.41  | 1.63                                       | 2.26                     | 2.56              |
| Total weighted average yield           | <u>2.75%</u>   | <u>1.40%</u>                                | <u>1.58%</u>                               | <u>2.38%</u>             | <u>1.61%</u>      |



The following table sets forth the composition of our investment securities portfolio at each of the dates indicated.

|                                     | At December 31,        |                  |
|-------------------------------------|------------------------|------------------|
|                                     | 2021                   | 2020             |
|                                     | (Dollars in thousands) |                  |
| Fixed-rate:                         | \$ 98,000              | \$ 78,281        |
| Adjustable-rate:                    | 2,950                  | 3,339            |
| Total securities available for sale | <u>\$ 100,950</u>      | <u>\$ 81,620</u> |

### Investment Activities

Investments in mortgage-backed securities involve a risk that actual prepayments will be greater than estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

Additionally, we hold interest-bearing deposits at financial institutions throughout the United States. Some of these accounts have balances above the FDIC's per account insurance limit of \$250,000. We monitor that credit risk on a quarterly basis. We also hold funds in the Federal Reserve Bank of Chicago and the FHLB of Chicago.

### Sources of Funds

**General.** Deposits, loan repayments and prepayments, proceeds from investment sales, calls, maturities and pay-downs, cash flows generated from operations and FHLB of Chicago advances are the primary sources of our funds for use in lending, investing and for other general purposes.

**Deposits.** We offer a variety of deposit accounts with a range of interest rates and terms. Our deposits consist of checking, both interest-bearing and noninterest-bearing, money market, savings and time deposit accounts. As of December 31, 2021, 74.5% of the funds deposited with North Shore Trust and Savings were in core deposits, which are deposits other than time deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. Our deposits are obtained predominantly from the areas where our branch offices are located. We have historically relied primarily on customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect our ability to attract and retain deposits.

We use traditional means of advertising deposit products, including broadcast and print media and we generally do not solicit deposits from outside our market area. In recent years, we have emphasized the origination of core deposits.

The following table shows the distribution of, and certain other information relating to, our deposits by type of deposit, as of the dates indicated.

|                              | At December 31,        |         |            |         |
|------------------------------|------------------------|---------|------------|---------|
|                              | 2021                   |         | 2020       |         |
|                              | Amount                 | %       | Amount     | %       |
|                              | (Dollars in thousands) |         |            |         |
| <b>Certificate accounts:</b> |                        |         |            |         |
| 0.00% - 0.99%                | \$ 48,022              | 16.80%  | \$ 27,025  | 14.50%  |
| 1.00% - 1.99%                | 6,617                  | 2.32%   | 17,326     | 9.29%   |
| 2.00% - 2.99%                | 17,534                 | 6.14%   | 22,073     | 11.84%  |
| 3.00% or more                | 701                    | 0.25%   | 1,488      | 0.80%   |
| Total certificate accounts   | \$ 72,874              | 25.51%  | \$ 67,912  | 36.43%  |
| <b>Transaction accounts:</b> |                        |         |            |         |
| Savings                      | \$ 50,312              | 17.62%  | \$ 42,251  | 22.67%  |
| Checking:                    |                        |         |            |         |
| Interest-bearing             | 17,931                 | 6.28%   | 16,364     | 8.78%   |
| Noninterest-bearing          | 99,090                 | 34.69%  | 9,734      | 5.22%   |
| Money market                 | 45,414                 | 15.90%  | 50,143     | 26.90%  |
| Total transaction accounts   | \$ 212,747             | 74.49%  | \$ 118,492 | 63.57%  |
| Total deposits               | \$ 285,621             | 100.00% | \$ 186,404 | 100.00% |

The following tables show the average balance of each type of deposit and the average rate paid on each type of deposit for the periods indicated.

|                                 | At and for the Year Ended December 31, |                  |                   |                 |                  |                   |
|---------------------------------|--|------------------|-------------------|-----------------|------------------|-------------------|
|                                 | 2021                                   |                  |                   | 2020            |                  |                   |
|                                 | Average Balance                        | Interest Expense | Average Rate Paid | Average Balance | Interest Expense | Average Rate Paid |
|                                 | (Dollars in thousands)                 |                  |                   |                 |                  |                   |
| Savings accounts                | \$ 45,609                              | \$ 68            | 0.15%             | \$ 40,638       | \$ 97            | 0.24%             |
| Checking-interest bearing       | 17,738                                 | 8                | 0.05%             | 14,461          | 12               | 0.08%             |
| Money market                    | 46,985                                 | 96               | 0.20%             | 51,278          | 242              | 0.47%             |
| Time deposit                    | 67,253                                 | 768              | 1.14%             | 70,188          | 1,137            | 1.62%             |
| Total interest-bearing deposits | \$ 177,585                             | \$ 940           | 0.53%             | \$ 176,565      | \$ 1,488         | 0.84%             |
| Total deposits                  | \$ 203,618                             | \$ 940           | 0.46%             | \$ 193,940      | \$ 1,488         | 0.77%             |

The following table shows, by various interest rate categories and maturities, the amount of time deposit as of December 31, 2021.

| Time deposit               | Balance at December 31, 2021                  |           |          |          |            |           |
|----------------------------|---|-----------|----------|----------|------------|-----------|
|                            | Maturing in the 12 Months Ending December 31, |           |          |          |            |           |
|                            | 2022  | 2023      | 2024     | 2025     | Thereafter | Total     |
|                            | (Dollars in thousands)                        |           |          |          |            |           |
| 0.00% - 0.99               | \$ 35,563                                     | \$ 5,877  | \$ 1,007 | \$ 2,710 | \$ 2,865   | \$ 48,022 |
| 1.00% - 1.99               | 2,518   | 2,717     | 71       | 1,311    | —          | 6,617     |
| 2.00% - 2.99               | 1,145   | 6,443     | 8,430    | 1,516    | —          | 17,534    |
| 3.00% - or more            | 701   | —         | —        | —        | —          | 701       |
| Total certificate accounts | \$ 39,927                                     | \$ 15,037 | \$ 9,508 | \$ 5,537 | \$ 2,865   | \$ 72,874 |

[Table of Contents](#)

The following table shows the maturities of our time deposit in excess of the FDIC insurance limit (generally, \$250,000) as of December 31, 2021 by time remaining to maturity.

| Quarter Ending:                                       | Amount                 | Weighted Average Rate |
|---|------------------------|-----------------------|
|   | (Dollars in thousands) |                       |
| March 31, 2022  | \$ 1,268               | 0.55%                 |
| June 30, 2022   | 622                    | 0.25%                 |
| September 30, 2022                                    | 1,290                  | 0.37%                 |
| December 31, 2022                                     | 574                    | 0.66%                 |
| After December 31, 2022                               | 5,626                  | 1.75%                 |
| Total time deposit with balances of \$250,000 or more | \$ 9,380               | 1.23%                 |

The amount of our total uninsured deposits (that is deposits in excess of the FDIC's insurance limit) was \$42.5 million and \$45.8 million, respectively, at December 31, 2021 and 2020.

**Borrowings.** Historically, we have not utilized advances from the FHLB of Chicago. During 2020, the FHLB of Chicago offered a \$4.0 million advance at a 0% interest rate. The advance matured in May 2021 and was replaced with a \$5.0 million advance, also at a 0% interest rate. The advance is collateralized by loans pledged to the FHLB of Chicago and matures on May 23, 2022.

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

|   | At or For the Year Ended December 31, |        |
|---|---------------------------------------|--------|
|   | 2021                                  | 2020   |
|   | (Dollars in thousands)                |        |
| <b>FHLB of Chicago advances and other borrowings:</b>         |                                       |        |
| Average balance outstanding                                   | \$ 4,616                              | \$ 879 |
| Maximum amount outstanding at any month-end during the period | 5,000                                 | 4,000  |
| Balance outstanding at end of period                          | 5,000                                 | 4,000  |
| Average interest rate during the period                       | 0.0%                                  | 0.0%   |
| Weighted average interest rate at end of period               | 0.0%                                  | 0.0%   |

As of December 31, 2021, all of our borrowings were short term (maturities of one year or less).

#### Expense and Tax Allocation

North Shore Trust and Savings has an agreement with NSTS Bancorp, Inc., to provide it with certain administrative support services for compensation not less than the fair market value of the services provided. In addition, North Shore Trust and Savings and NSTS Bancorp, Inc. have an agreement that establishes a method for allocating and for reimbursing the payment of their consolidated tax liability.

#### Employees and Human Capital Resources

At December 31, 2021, we had 35 full-time equivalent employees. None of such employees are represented by a collective bargaining group, and we believe that our relationship with our employees is excellent. The success of our business is highly dependent on our employees, who provide value to our customers and communities. Our workplace culture provides a set of core values: a concern for others, trust, respect, hard work and a dedication to our customers. We seek to hire well-qualified employees who are also a good fit for our value system.

We believe that our ability to attract and retain top quality employees will be a key to our future success. We recently elevated Nathan E. Walker to President of North Shore Trust and Savings in December 2020 and promoted Carissa H. Schoolcraft to Chief Financial Officer from Controller in April 2021. We expect to continue to assess our management and staffing needs and are likely to add personnel in the future in order to fully implement our business strategy.

The safety, health and wellness of our employees is a top priority. The COVID-19 pandemic has presented a unique challenge with regard to maintaining employee safety while continuing successful operations. Through teamwork and the adaptability of our management and staff, we were and remain able to provide a safely distanced working environment for employees performing customer-facing activities, at branches and operations centers. On an ongoing basis, we further promote the health and wellness of our employees by strongly encouraging work-life balance, offering flexible work schedules, and keeping the employee portion of health care premiums to a low amount.

Employee retention helps us operate efficiently and achieve one of our business objectives, which is being a low-cost provider. We believe our commitment to living out our core values, actively prioritizing concern for our employees' well-being, supporting our employees' career goals, offering competitive wages and providing valuable fringe benefits aids in retention of our top-performing employees.

## TAXATION

### Federal Income Taxation

**General.** NSTS Bancorp, Inc. and North Shore Trust and Savings are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal and state income taxation is only intended to summarize certain pertinent income tax matters and is not a comprehensive description of the applicable tax rules. North Shore Trust and Savings' income tax returns have not been audited by a taxing authority during the past five years.

Beginning in 2022, NSTS Bancorp, Inc. will file a consolidated federal income tax return with North Shore Trust and Savings. Any cash distributions made by NSTS Bancorp, Inc. to its stockholders would be treated as cash dividends and not as returns of capital to stockholders for federal and state income tax purposes.

**Method of Accounting.** For federal income tax purposes, we report income and expenses on the accrual method of accounting and use a December 31 tax year for filing our federal income tax returns.

**Bad Debt Reserves.** The Small Business Job Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995. Prior to that time, North Shore Trust and Savings was permitted to establish a reserve for bad debts.

**Taxable Distributions and Recapture.** If North Shore Trust and Savings makes certain non-dividend distributions or ceases to maintain a bank charter, then its pre-1988 reserves remain subject to recapture into taxable income. As of December 31, 2021, the total federal pre-1988 reserve was \$0. The reserve reflects the cumulative effects of federal income tax deductions by North Shore Trust and Savings for which no federal income tax provisions have been made.

**Corporate Dividends-Received Deduction.** NSTS Bancorp, Inc., as an affiliate of North Shore Trust and Savings, will be able to exclude from its income for federal income tax purposes 100% of the dividends received from North Shore Trust and Savings.

### State Taxation

NSTS Bancorp, Inc. is subject to Illinois corporate income tax and replacement tax based on its Illinois taxable income and Wisconsin corporate income tax on its Wisconsin taxable income.

## SUPERVISION AND REGULATION

### General

As a federal savings association, North Shore Trust and Savings is subject to examination and regulation by the OCC, and is also subject to examination by the FDIC as deposit insurer. The federal system of regulation and supervision establishes a comprehensive framework of activities in which North Shore Trust and Savings may engage and is intended primarily for the protection of depositors and the FDIC's Deposit Insurance Fund, and not for the protection of stockholders. North Shore Trust and Savings, also, is a member of and owns stock in the FHLB of Chicago, which is one of the 11 regional banks in the Federal Home Loan Bank System.

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

In addition, we must comply with significant anti-money laundering and anti-terrorism laws and regulations, Community Reinvestment Act laws and regulations, and fair lending laws and regulations. Government agencies have the authority to impose monetary penalties and other sanctions on institutions that fail to comply with these laws and regulations, which could significantly affect our business activities, including our ability to acquire other financial institutions or expand our branch network.

As a savings and loan holding company, NSTS Bancorp, Inc. is required to comply with the rules and regulations of the Federal Reserve Board. It is required to file certain reports with the Federal Reserve Board and is subject to examination by and the enforcement authority of the Federal Reserve Board. NSTS Bancorp, Inc. is also subject to the rules and regulations of the Securities and Exchange Commission (the "SEC") under the federal securities laws.

Any change in applicable laws or regulations, whether by the OCC, the FDIC, the Federal Reserve Board, the SEC or Congress, could have a material adverse impact on the operations and financial performance of NSTS Bancorp, Inc. and North Shore Trust and Savings.

Set forth below is a brief description of material regulatory requirements that are applicable to North Shore Trust and Savings and NSTS Bancorp, Inc. The description is limited to certain material aspects of the statutes and regulations addressed in this filing, and is not intended to be a complete description of such statutes and regulations and their effects on North Shore Trust and Savings and NSTS Bancorp, Inc.

## **Federal Banking Regulation**

**Business Activities.** A federal savings association derives its lending and investment powers from the Home Owners' Loan Act, as amended, and applicable federal regulations. Under these laws and regulations, a federal savings association may generally invest in mortgage loans secured by residential real estate without an aggregate limit, and commercial business, commercial real estate and consumer loans, certain types of debt securities and certain other assets, subject to overall percentage of assets or capital limits. Federal savings associations are also subject to a "Qualified Thrift Lender Test," or "QTL Test," which generally requires that a specified percentage of overall assets be residential mortgages and related investments.

Effective July 1, 2019, the OCC issued a final rule, pursuant to a provision of the Economic Growth Regulatory Relief and Consumer Protection Act ("EGRRCPA"), that permits a federal savings association to elect to exercise national bank powers without converting to a national bank charter. The election is available to federal savings associations that had total consolidated assets of \$20 billion or less as of December 31, 2017. North Shore Trust and Savings has not exercised the covered savings association election.

A federal savings association that has exercised the "covered savings association" election generally has the same rights and privileges as a national bank that has its main office in the same location as the home office of the covered savings association. The covered savings association is also subject to the same duties, restrictions, liabilities and limitations applicable to a national bank. A covered savings association retains its federal savings association charter and continues to be subject to the corporate governance laws and regulations applicable to such associations, including as to its bylaws, board of directors and stockholders, capital distributions and mergers.

A covered savings association may make loans to its customers without regard to the lending restrictions applicable to federal savings associations, such as the percentage of capital or assets limits on various types of loans and the QTL Test. However, federal savings associations that have made such an election are subject to the narrower authority of national banks in certain areas such as branching and subsidiary activities in certain respects. A covered savings association may generally not retain any assets, subsidiaries or activities not permitted for national banks.

Applicable regulations authorize a federal association that has exercised the covered savings association election to terminate the election and thereby again operate as a federal savings association that has not made a covered savings association election. We have no current plans to elect to be treated as a covered savings association.

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

EGRRCPA required the federal banking agencies, including the OCC, to establish a "community bank leverage ratio," referred to in this filing as the CBLR, of between 8% and 10% for institutions with assets of less than \$10 billion. The community bank leverage is the ratio of a bank's tangible Tier 1 equity capital to average total consolidated assets and was established by the regulators at 9%. Institutions with capital complying with the ratio and otherwise meeting the specified requirements and electing the alternative framework are considered to comply with the applicable regulatory capital requirements, including the risk-based requirements. A qualifying institution may opt in and out of the CBLR framework on its quarterly call report. The CBLR option was effective January 1, 2020 and is available to institutions with assets of less than \$10 billion that meet other specified criteria. The federal banking agencies issued a rule implementing the lower ratio, effective April 23, 2020. The rule also established a two-quarter grace period for a qualifying institution whose leverage ratio falls below the 8% requirement so long as the bank maintains a leverage ratio of 7% or greater. Another rule was issued to transition to the 9% CBLR by increasing the ratio to 8.5% for calendar year 2021 and 9% thereafter. A qualifying community bank that exercises the election and has capital equal to or exceeding the applicable percentage is considered compliant with all applicable regulatory capital requirements. Qualifying institutions may elect to utilize the CBLR in lieu of the generally applicable risk-based capital requirements. North Shore Trust and Savings has elected to utilize the CBLR framework.

As of December 31, 2021, North Shore Trust and Savings' capital exceeded all applicable requirements including the applicable conservation buffer.

**CARES Act and CAA, 2021.** In response to the COVID-19 pandemic, Congress, through the enactment of the CARES Act, and the federal banking agencies, through rulemaking, interpretive guidance and modifications to agency policies and procedures, have taken a series of actions to provide national emergency economic relief measures including, among others, the following:

- The CARES Act allows banks to elect to suspend requirements under GAAP for loan modifications related to the COVID-19 pandemic (for loans that were not more than 30 days past due as of December 31, 2019) that would otherwise be categorized as a TDR until the earlier of 60 days after the termination date of the national emergency or December 31, 2020. The suspension of certain GAAP requirements is applicable for the entire term of the modification. In addition, the bank regulatory agencies issued interagency guidance stating that banks may presume borrowers are not experiencing financial difficulty for COVID-19 related short-term modifications (i.e., six months or less) granted to loans that were current as of the loan modification program implementation date, therefore supporting these modifications are not required to be classified as TDRs under US GAAP. North Shore Trust and Savings is applying this guidance to qualifying COVID-19 modifications.
- The CARES Act amended the SBA's loan program to create a guaranteed, unsecured loan program, the Paycheck Protection Program ("PPP"), to fund payroll and operational costs of eligible businesses, organizations and self-employed persons during the COVID-19 pandemic. The loans are provided through participating financial institutions that process loan applications and service the loans and are eligible for SBA repayment and loan forgiveness if the borrower meets the PPP conditions. The application period for an SBA PPP loan closed on August 8, 2020. The SBA began approving PPP forgiveness applications and remitting forgiveness payments to PPP lenders on October 2, 2020. The CAA, which was signed into law on December 27, 2020, renewed and extended the PPP until June 30, 2021. As of December 31, 2021, all loans originated by North Shore Trust and Savings under the PPP have received full forgiveness.

As the ongoing COVID-19 pandemic evolves, federal regulatory authorities continue to issue additional guidance with respect to the implementation, lifecycle, and eligibility requirements for the various CARES Act programs as well as industry-specific recovery procedures for COVID-19. We continue to assess the impact of the CARES Act and other statutes, regulations and supervisory guidance related to the COVID-19 pandemic.

**Loans-to-One Borrower.** Generally, a federal savings association, including a covered savings association, may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the excess is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2021, North Shore Trust and Savings was in compliance with the loans-to-one borrower limitations.

**Capital Distributions.** Federal regulations govern capital distributions by a federal savings association, which include cash dividends, stock repurchases and other transactions charged to the savings association's capital account. A federal savings association must file an application with the OCC for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings association's net income for that year to date plus the savings association's retained net income for the preceding two years;
- the savings association would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or regulatory condition; or
- the savings association is not eligible for expedited treatment of its filings, generally due to an unsatisfactory CAMELS rating or being subject to a cease and desist order or formal written agreement that requires action to improve the institution's financial condition.

Even if an application is not otherwise required, every savings association that is a subsidiary of a savings and loan holding company, such as North Shore Trust and Savings, must still file a notice with the Federal Reserve Board at least 30 days before the board of directors declares a dividend or approves a capital distribution.

A notice or application related to a capital distribution may be disapproved if:

- the federal savings association would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act generally provides that an insured depository institution may not make any capital distribution if, after making such distribution, the institution would fail to meet any applicable regulatory capital requirement. A federal savings association also may not make a capital distribution that would reduce its regulatory capital below the amount required for the liquidation account established in connection with its conversion to stock form.

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

On May 20, 2020, the OCC issued a final rule which would have comprehensively amended and modernized how banks received credit under the Community Reinvestment Act in serving low- and moderate-income individuals and communities. However, on July 20, 2021, the OCC issued a statement that it was rescinding the final rule. Simultaneously with that announcement, the Federal Reserve Board, the OCC and the FDIC announced that the agencies would be working together to jointly strengthen and modernize regulations implementing the Community Reinvestment Act in the future. At this time, no rules have been proposed or finalized, and we are unable to determine what impact, if any, any finalized rule may have on the operations of North Shore Trust and Savings.

The Community Reinvestment Act requires all institutions insured by the FDIC to publicly disclose their rating. North Shore Trust and Savings received an "Outstanding" Community Reinvestment Act rating in its most recent federal examination.

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

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

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and
- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of North Shore Trust and Savings' capital.

In addition, extensions of credit in excess of certain limits must be approved by North Shore Trust and Savings' board of directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

**Enforcement.** The OCC has primary enforcement responsibility over federal savings associations and has authority to bring enforcement action against all "institution-affiliated parties," including directors, officers, stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on a federal savings association. Formal enforcement action by the OCC may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to \$25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as \$1 million per day. The FDIC also has the authority to terminate deposit insurance or recommend to the OCC that enforcement action be taken with respect to a particular federal savings association. If such action is not taken, the FDIC has authority to take the action under specified circumstances.

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

**Branching.** A federal savings association that has elected covered savings association status is subject to the laws and regulations governing the establishment of branches by national banks. Generally, intrastate and interstate branching is authorized to the extent that the law of the state involved authorizes branching for banks that it charters. Such authority is subject to OCC approval for new branches.

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

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

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

As of December 31, 2021, North Shore Trust and Savings met the criteria for being considered “well-capitalized.”

**Insurance of Deposit Accounts.** The Deposit Insurance Fund of the FDIC insures deposits at FDIC-insured financial institutions such as North Shore Trust and Savings, generally up to a maximum of \$250,000 per separately insured depositor. The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund.

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



The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of North Shore Trust and Savings. We cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not know of any practice, condition or violation that may lead to termination of our deposit insurance.

**Privacy and Cybersecurity.** The Gramm-Leach-Bliley Act, or GLBA, and its implementing regulations issued by federal regulatory agencies require financial institutions (including banks) to adopt policies and procedures regarding the disclosure of nonpublic personal information about their customers to non-affiliated third parties. In general, financial institutions are required to explain to customers their policies and procedures regarding the disclosure of such nonpublic personal information and, unless otherwise required or permitted by law, financial institutions are prohibited from disclosing such information except as provided in their policies and procedures. Specifically, the GLBA established certain information security guidelines that require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against anticipated threats or hazards to the security or integrity of such information and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. North Shore Trust and Savings currently has a privacy protection policy and security program in place and believes that such policy and program are in compliance with applicable regulations.

Recent cyber-attacks against banks and other financial institutions that resulted in unauthorized access to confidential customer information have prompted the federal banking regulators to issue extensive guidance on cybersecurity. Among other things, financial institutions are expected to design multiple layers of security controls to establish lines of defense and ensure that their risk management processes address the risks posed by compromised customer credentials, including security measures to authenticate customers accessing Internet-based services. A financial institution also should have a robust business continuity program to recover from a cyberattack and procedures for monitoring the security of third-party service providers that may have access to nonpublic data at the institution.

On December 18, 2020, the Federal Reserve Board, the OCC and the FDIC issued a proposed rule that would impose new notification requirements for significant cybersecurity incidents. If adopted without substantial change, the proposed rule would require banking organizations to notify their primary federal regulator promptly, and not later than 36 hours after, the discovery of such incidents termed “computer-security incidents” that are “notification incidents.” This proposed rule would be in addition to existing statutory and regulatory obligations North Shore Trust and Savings has for notification of security incidents, including those prescribed under the Interagency Guidelines Establishing Information Security Standards, federal and state laws and regulations. At this time, the proposed rule has yet to be finalized and we are unable to determine what impact, if any, any finalized rule may have on the operations of North Shore Trust and Savings.

**USA PATRIOT Act.** North Shore Trust and Savings is subject to the Bank Secrecy Act and USA PATRIOT Act. These statutes and related rules and regulations impose requirements and limitations on specified financial transactions and accounts and other relationships intended to guard against money laundering and terrorism financing. The principal requirements for an insured depository institution include (i) establishment of an anti-money laundering program that includes training and audit components, (ii) establishment of a “know your customer” program involving due diligence to confirm the identities of persons seeking to open accounts and to deny accounts to those persons unable to demonstrate their identities, (iii) the filing of currency transaction reports for deposits and withdrawals of large amounts of cash, (iv) additional precautions for accounts sought and managed for non-U.S. persons and (v) verification and certification of money-laundering risk with respect to private banking and foreign correspondent banking relationships. For many of these tasks a bank must keep records to be made available to its primary federal regulator. Anti-money laundering rules and policies are developed by a bureau within the Treasury Department, the Financial Crimes Enforcement Network (“FinCEN”), but compliance by individual institutions is overseen by its primary federal regulator.

North Shore Trust and Savings has established appropriate anti-money laundering and customer identification programs. North Shore Trust and Savings also maintains records of cash purchases of negotiable instruments, files reports of certain cash transactions exceeding \$10,000 (daily aggregate amount) and reports suspicious activity that might signify money laundering, tax evasion or other criminal activities pursuant to the Bank Secrecy Act. North Shore Trust and Savings otherwise has implemented policies and procedures to comply with the foregoing requirements.

The Treasury Department’s Office of Foreign Assets Control, or OFAC, is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons, organizations and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If North Shore Trust and Savings finds a name on any transaction, account or wire transfer that is on an OFAC list, North Shore Trust and Savings must freeze or block such account or transaction, file a suspicious activity report and notify the appropriate authorities.

On January 1, 2021, Congress passed the Corporate Transparency Act as part of the National Defense Authorization Act, which enacted the most significant overhaul of the anti-money laundering laws since the USA PATRIOT Act. Notable amendments include (i) significant changes to the collection of beneficial ownership information and the establishment of a beneficial ownership registry, which requires corporate entities (generally, any corporation, limited liability company or other similar entity with 20 or fewer employees and annual gross income of \$5 million or less) to report beneficial ownership information to FinCEN (which will be maintained by the FinCEN and made available upon request to financial institutions); (ii) enhanced whistleblower provisions, which provide that one or more whistleblowers who voluntarily provide original information leading to the successful prosecution of violations of the anti-money laundering laws in any judicial or administrative action brought by the Secretary of the Treasury or the U.S. Attorney General resulting in monetary sanctions exceeding \$1 million (including disgorgement and interest but excluding forfeiture, restitution or compensation to victims) will receive not more than 30% of the monetary sanctions collected and will receive increased protections; (iii) increased penalties for violations of anti-money laundering laws and regulations; (iv) improvements to existing information sharing provisions that permit financial institutions to share information relating to suspicious activity reports with foreign branches, subsidiaries, and affiliates (except those located in China, Russia or certain other jurisdictions) for the purpose of combating illicit finance risks; and (v) expanded duties and enforcement powers for the FinCEN. Many of the amendments, including those with respect to beneficial ownership, require the U.S. Department of Treasury and the FinCEN to promulgate rules. On December 7, 2021, FinCEN issued the first of three proposed rules to implement changes to the beneficial ownership requirements and related amendments set forth in the Corporate Transparency Act. At this time, since the other two rules have not yet been issued, we are unable to determine what impact, if any, the finalized rules may have on the operations of North Shore Trust and Savings.

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

#### **Other Regulations**

Interest and other charges collected or contracted by North Shore Trust and Savings are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to state and federal laws applicable to credit transactions, such as the:

- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of North Shore Trust and Savings also are subject to, among others, the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Check Clearing for the 21st Century Act (also known as “Check 21”), which gives “substitute checks,” such as digital check images and copies made from that image, the same legal standing as the original paper check; and
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers’ rights and liabilities arising from the use of automated teller machines and other electronic banking services.

#### **Federal Home Loan Bank System**

North Shore Trust and Savings is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. Each Federal Home Loan Bank provides a central credit facility primarily for member institutions, and such member institutions are required to acquire and hold shares of capital stock in the Federal Home Loan Bank. North Shore Trust and Savings was in compliance with this requirement as of December 31, 2021 based on its ownership of \$550,000 in capital stock of the FHLB of Chicago. The stock has no quoted market value and is carried at cost. North Shore Trust and Savings reviews for impairment, based on the ultimate recoverability, the cost basis of the FHLB of Chicago’s stock. As of December 31, 2021, no impairment had been recognized.

## **Holding Company Regulation**

NSTS Bancorp, Inc. is a unitary savings and loan holding company subject to regulation and supervision by the Federal Reserve Board. The Federal Reserve Board has enforcement authority over NSTS Bancorp, Inc. and its non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a risk to North Shore Trust and Savings.

As a savings and loan holding company, NSTS Bancorp, Inc.'s activities are limited to those activities permissible by law for financial holding companies (if NSTS Bancorp, Inc. makes an election to be treated as a financial holding company and meets the other requirements to be a financial holding company) or multiple savings and loan holding companies. NSTS Bancorp, Inc. has no present intention to make an election to be treated as a financial holding company. A financial holding company may engage in activities that are financial in nature, incidental to financial activities or complementary to a financial activity. Such activities include lending and other activities permitted for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, insurance and underwriting equity securities. Multiple savings and loan holding companies are authorized to engage in activities specified by federal regulation, including activities permitted for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or savings and loan holding company without prior written approval of the Federal Reserve Board, and from acquiring or retaining control of any depository institution not insured by the FDIC. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider such factors as the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on and the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors. A savings and loan holding company may not acquire a savings institution in another state and hold the target institution as a separate subsidiary unless it is a supervisory acquisition or the law of the state in which the target is located authorizes such acquisitions by out-of-state companies.

As a savings and loan holding company with less than \$3.0 billion in consolidated assets, NSTS Bancorp, Inc. is currently exempt from consolidated regulatory capital requirements.

The Federal Reserve Board has promulgated regulations implementing the "source of strength" doctrine that require holding companies, including savings and loan holding companies, to act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

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

## **Change in Control Regulations**

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

The Federal Reserve Board adopted a final rule, effective September 30, 2020, that revises its framework for determining whether a company, under the Bank Holding Company Act, has a “controlling influence” over a bank or savings and loan holding company.

#### **Federal Securities Laws**

NSTS Bancorp, Inc. common stock is registered with the SEC. Accordingly, NSTS Bancorp, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

#### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

#### **Emerging Growth Company Status**

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

NSTS Bancorp, Inc. could remain an “emerging growth company” for up to five years, or until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed \$1.07 billion, (b) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (c) the date on which we have issued more than \$1.0 billion in non-convertible debt during the preceding three-year period.

#### **Availability of Annual Report on Form 10-K**

This Annual Report on Form 10-K is available on our website at [www.northshoretrust.com](http://www.northshoretrust.com). Information on the website is not incorporated into, and is not otherwise considered a part of, this Annual Report on Form 10-K.

#### **Subsidiaries**

NSTS Bancorp, Inc.'s only subsidiary is North Shore Trust and Savings. The Bank does not have any subsidiaries.

#### **Item 1A. Risk Factors**

Not required for smaller reporting companies.

#### **Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We currently conduct business from our main office, two full-service branch offices and one loan production office. The following table sets forth the net book value of the land, building and leasehold improvements and certain other information with respect to our offices at December 31, 2021.

| Description/Address                                 | Net Book Value of<br>Property | Amount of Deposits |
|---|-------------------------------|--------------------|
|   | (Dollars in thousands)        |                    |
| <b>Main Office:</b>                                 |                               |                    |
| 700 S. Lewis Avenue, Waukegan, Illinois 60085       | \$ 693                        | \$ 217,191         |
| <b>Branch Offices:</b>                              |                               |                    |
| 1233 N. Green Bay Road, Waukegan, Illinois 60085    | 978                           | 46,847             |
| 3060 W. Sand Lake Road, Lindenhurst, Illinois 60046 | 3,263                         | 21,583             |
| Total   | \$ 4,934                      | \$ 285,621         |
| <b>Loan Production Offices:</b>                     |                               |                    |
| 2149 W. Roscoe Street, Chicago, Illinois 60618(1)   | N/A                           | N/A                |

(1) The loan production office is leased by North Shore Trust and Savings and does not accept deposits. The lease expired on December 31, 2021 and was renewed through December 31, 2022.

**Item 3. 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 4. Mine Safety Disclosures**

Not Applicable.

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

NSTS Bancorp, Inc.'s common stock is listed on the Nasdaq Capital Market, under the symbol "NSTS". As of March 15, 2022, there were 5,397,959 shares of our common stock issued and outstanding, which were held by approximately 280 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms). Our common stock began trading on the Nasdaq Capital Market on January 19, 2022, with an initial share price of \$10.00 per share.

We do not currently intend to pay cash dividends to our stockholders, and no assurances can be given that any such dividends will be paid in the future. The payment and amount of any dividends will be subject to statutory and regulatory limitations, and will depend upon a number of factors, including the following: regulatory capital requirements; our financial condition and results of operations; our other uses of funds for the long-term value of stockholders; tax considerations; and general economic conditions.

We are subject to state law limitations and federal bank regulatory policy on the payment of dividends. Delaware law generally limits dividends to be paid out of capital surplus or, if there is no surplus, out of net profits from the fiscal year in which the dividend is declared, and the preceding fiscal year, subject to certain limitations.

Additionally, Federal Reserve policy could restrict future dividends on our common stock, depending on our earnings and capital position and likely needs. See "Supervision and Regulation – Federal Banking Regulations - Capital Distributions" and "Supervision and Regulation - Holding Company Regulations".

There were no unregistered sales of NSTS Bancorp, Inc.'s common stock during the year ended December 31, 2021. Additionally, there were no repurchases of shares of NSTS Bancorp, Inc.'s common stock during the year-ended December 31, 2021.

**Item 6. [Reserved]**

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

This discussion and analysis reflects the consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of the financial condition and results of operations of North Shore MHC, NSTS Financial Corporation and North Shore Trust and Savings for the years ended December 31, 2021 and 2020. The purpose of this discussion is to provide information about our financial condition and results of operations which is not otherwise apparent from the consolidated financial statements. You should read the information in this section in conjunction with the other business and financial information provided in this annual report.

**Overview**

North Shore Trust and Savings is a community-oriented savings institution headquartered in Waukegan, Illinois. We operate as a traditional thrift relying on the origination of long-term one- to four-family residential mortgage loans secured by property in Lake County, Illinois and surrounding communities. We also originate multi-family and commercial real estate loans and, to a lesser extent, construction, home equity, and consumer loans. We currently operate three full-service banking offices in Lake County, Illinois and one loan production office in Chicago. Our primary sources of funds consist of attracting deposits from the general public and using those funds along with funds from the FHLB of Chicago and other sources to originate loans to our customers and invest in securities. As of December 31, 2021, we had total assets of \$340.9 million, including \$96.5 million in net loans and \$101.0 million of securities available for sale, total deposits of \$285.6 million and total equity of \$45.2 million. For the year ended December 31, 2021, we had a net loss of \$55,000 compared to a net loss of \$112,000 for the year ended December 31, 2020.

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

## Critical Accounting Policies

In reviewing and understanding financial information for North Shore MHC, you are encouraged to read and understand the significant accounting policies used in preparing our financial statements. These policies are described in Note 1 of the notes to our consolidated financial statements beginning on page 40 of this filing. Our accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Accordingly, the financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the periods presented. The JOBS Act of 2012 contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an “emerging growth company” we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may significantly affect our reported results and financial condition for the period or in future periods.

**Allowance for Loan Losses.** We have identified the evaluation of the allowance for loan losses as a critical accounting policy where amounts are sensitive to material variation. The allowance for loan losses represents management’s estimate for probable losses that are inherent in our loan portfolio but which have not yet been realized as of the date of our balance sheet. It is established through a provision for loan losses charged to earnings. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries are added to the allowance. The allowance is an amount that management believes will cover known and inherent losses in the loan portfolio based on evaluations of the collectability of loans. The evaluations take into consideration such factors as changes in the types and amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, estimated losses relating to specifically identified loans, and current economic conditions. This evaluation is inherently subjective as it requires material estimates including, among others, exposure at default, the amount and timing of expected future cash flows on impacted loans, value of collateral, estimated losses on our commercial and residential loan portfolios, and general amounts for historical loss experience. All of these estimates may be susceptible to significant changes as more information becomes available.

While management uses the best information available to make loan loss allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or changes in accounting guidance. Historically, our estimates of the allowance for loan loss have not required significant adjustments from management’s initial estimates. In addition, the OCC as an integral part of their examination processes periodically reviews our allowance for loan losses. The OCC may require the recognition of adjustments to the allowance for loan losses based on its judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management’s estimates, additional provisions to the allowance for loan losses may be required that would adversely impact earnings in future periods.

## COVID-19

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

**Comparison of Financial Condition at December 31, 2021 and December 31, 2020**

|  | At December 31,        |            |
|--|------------------------|------------|
|  | 2021                   | 2020       |
|  | (Dollars in thousands) |            |
| <b>Selected Consolidated Financial Condition Data:</b> |                        |            |
| Total assets   | \$ 340,869             | \$ 242,219 |
| Cash and cash equivalents                              | 121,611                | 31,868     |
| Securities available for sale                          | 100,950                | 81,620     |
| FHLB of Chicago stock                                  | 550                    | 512        |
| Loans receivable, net                                  | 96,534                 | 98,455     |
| Total deposits   | 285,621                | 186,404    |
| FHLB of Chicago advances                               | 5,000                  | 4,000      |
| Total equity   | \$ 45,183              | \$ 46,725  |

**Total Assets.** Total assets increased \$98.7 million, or 40.8%, to \$340.9 million at December 31, 2021 compared to \$242.2 million at December 31, 2020. The increase is a direct result of an increase in cash and cash equivalents that was funded by deposit growth due to funds received in anticipation of the Plan of Conversion. The increase was partially offset by a decrease in loans, net.

**Cash and cash equivalents.** The funds received as part of the conversion were primarily held in cash and cash equivalents at December 31, 2021, which increased \$89.7 million, or 281.2%, to \$121.6 million at December 31, 2021, compared to \$31.9 million at December 31, 2020.

**Securities Available for Sale.** Prior to the influx of funds during December 2021 and during the year ended December 31, 2021, the Bank made an effort to reduce the cash and cash equivalents balance by investing in higher yielding assets. As a result of these efforts, securities available for sale increased \$19.4 million, or 23.8%, to \$101.0 million at December 31, 2021 compared to \$81.6 million at December 31, 2020. Our investment securities portfolio primarily consisted of debt obligations issued by the U.S. government and government agencies and government sponsored mortgage-backed securities.

**Time deposits with other financial institutions.** As time deposits with other financial institutions matured, management utilized those funds to purchase securities available for sale with greater yields. As such, time deposits with other financial institutions decreased \$8.9 million, or 71.8%, to \$3.5 million at December 31, 2021 compared to \$12.4 million at December 31, 2020.

**Loans held for sale.** Our loans held for sale decreased \$1.9 million, or 95.0%, to \$104,000 at December 31, 2021 compared to \$2.0 million at December 31, 2020. During the year ended December 31, 2021, management increased the portion of loans originated for the portfolio as opposed to the loans originated for sale. We consider our balance sheet as well as market conditions on an ongoing basis in making decisions as to whether to hold loans we originate for investment or to sell such loans choosing the strategy that we believe is most advantageous to us from a profitability and risk management standpoint at that time.

**Loans, net.** Our loans, net, decreased by \$2.0 million, or 2.0%, to \$96.5 million at December 31, 2021 compared to \$98.5 million at December 31, 2020. During the year ended December 31, 2021, our total loan originations of loans held for investment of \$25.9 million was offset by loan principal repayments of \$27.8 million and a transfer of loans held for investment to other real estate owned of \$172,000. The primary decrease in loans, net was a decrease in multi-family residential loans of \$2.2 million, or 38.6%, to \$3.5 million at December 31, 2021 compared to \$5.7 million at December 31, 2020. Additionally, commercial loans decreased \$739,000, or 13.9%, to \$4.6 million at December 31, 2021 compared to \$5.3 million at December 31, 2020 as a result of forgiveness of PPP loans during 2021. The decrease was partially offset by an increase in one- to four- family first residential mortgage loans of \$830,000, or 0.9%, to \$88.0 million at December 31, 2021 compared to \$87.2 million at December 31, 2020. At December 31, 2021, the allowance for loan losses was \$779,000, a decrease of \$91,000 compared to December 31, 2020, primarily due to a decrease in non-performing assets and general economic improvements during 2021. Non-performing loans were \$102,000 at December 31, 2021 compared to \$280,000 at December 31, 2020. The decrease of \$178,000 was the result of two non-accrual loans being moved to OREO, and later sold during the year, and payments made on non-accrual loans. Our non-performing loans to total loans decrease to 0.15% at December 31, 2021 compared to 0.36% at December 31, 2020.

**Bank-owned life insurance.** Total BOLI increased by \$181,000, or 2.0%, to \$9.1 million at December 31, 2021 compared to \$8.9 million at December 31, 2020. BOLI provides us with a funding offset for our employee benefit plans and obligations. BOLI also provides a source of noninterest income that generally is non-taxable.

**Deposits.** Our total deposits were \$285.6 million at December 31, 2021, an increase of \$99.2 million, or 53.2%, from \$186.4 million at December 31, 2020. The increase in deposits was driven by an influx of funds as part of the Plan of Conversion. Excluding deposits received in connection with the conversion and related stock offering, deposits increased \$12.0 million, or 6.4%. Our core deposits, which we consider to be all deposits except time deposit accounts, amounted to \$212.7 million on December 31, 2021, an increase of \$94.2 million, or 79.5% from \$118.5 million as of December 31, 2020. Total time deposit accounts increased \$5.0 million, or 7.4%, to \$72.9 million at December 31, 2021 from \$67.9 million at December 31, 2020.



**Other Borrowings.** Our borrowings, which consist of FHLB of Chicago advances, amounted to \$5.0 million at December 31, 2021, compared to \$4.0 million at December 31, 2020. In 2020, the FHLB of Chicago offered member banks an interest free one-year advance of \$4.0 million due to COVID-19. The FHLB advance was paid off in May 2021. In 2021, the FHLB of Chicago offered member banks an interest free one-year advance of \$5.0 million due to COVID-19 that we used to fund loans and purchase securities available for sale in an effort to generate a better interest rate spread.

**Total Equity.** Total equity decreased \$1.5 million, or 3.2%, to \$45.2 million at December 31, 2021, from \$46.7 million at December 31, 2020. The decrease is primarily the result of a decrease in tax effected net unrealized gain (loss) on securities available for sale of \$1.5 million, or 107.1%, to \$(81,000) at December 31, 2021, from \$1.4 million at December 31, 2020, and by a net loss for the year ended December 31, 2021 of \$55,000. At December 31, 2021, our ratio of total equity to total assets was 13.3%.

**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 North Shore Trust and Savings' interest-earning assets and costs of interest-bearing liabilities for the periods shown.

|   | At or For the Year Ended December 31, |          |                    |                             |          |                    |
|---|---------------------------------------|----------|--------------------|-----------------------------|----------|--------------------|
|   | 2021                                  |          |                    | 2020                        |          |                    |
|   | Average Outstanding Balance           | Interest | Average Yield/Rate | Average Outstanding Balance | Interest | Average Yield/Rate |
|   | (Dollars in thousands)                |          |                    |                             |          |                    |
| <b>Interest-earning assets:</b>   |                                       |          |                    |                             |          |                    |
| Loans   | \$ 98,409                             | \$ 3,569 | 3.63%              | \$ 100,907                  | \$ 4,086 | 4.05%              |
| Federal funds sold and interest-bearing deposits in other banks         | 33,384                                | 35       | 0.10%              | 34,929                      | 128      | 0.37%              |
| Time deposits with other financial institutions                         | 6,889                                 | 66       | 0.96%              | 17,941                      | 379      | 2.11%              |
| Securities available for sale   | 94,289                                | 1,355    | 1.44%              | 69,687                      | 1,417    | 2.03%              |
| FHLB of Chicago stock <sup>(1)</sup>                                    | 540                                   | 13       | 2.41%              | 512                         | 13       | 2.54%              |
| Total interest-earning assets   | \$ 233,511                            | \$ 5,038 | 2.16%              | \$ 223,976                  | \$ 6,023 | 2.69%              |
| Noninterest-earning assets  | 16,159                                |          |                    | 16,004                      |          |                    |
| Total assets  | \$ 249,670                            |          |                    | \$ 239,980                  |          |                    |
| <b>Interest-bearing liabilities:</b>                                    |                                       |          |                    |                             |          |                    |
| Interest-bearing demand   | \$ 17,738                             | \$ 8     | 0.05%              | \$ 14,461                   | \$ 12    | 0.08%              |
| Money market  | 46,985                                | 96       | 0.20%              | 51,278                      | 242      | 0.47%              |
| Savings   | 45,609                                | 68       | 0.15%              | 40,638                      | 97       | 0.24%              |
| Time deposits   | 67,253                                | 768      | 1.14%              | 70,188                      | 1,137    | 1.62%              |
| Total interest-bearing deposits   | \$ 177,585                            | \$ 940   | 0.53%              | \$ 176,565                  | \$ 1,488 | 0.84%              |
| Other borrowings <sup>(2)</sup>   | 4,616                                 | —        | 0.00%              | 2,448                       | —        | 0.00%              |
| Total interest-bearing liabilities                                      | \$ 182,201                            | \$ 940   | 0.52%              | \$ 179,013                  | \$ 1,488 | 0.83%              |
| Noninterest-bearing liabilities   | 21,417                                |          |                    | 14,927                      |          |                    |
| Total liabilities   | \$ 203,618                            |          |                    | \$ 193,940                  |          |                    |
| Equity  | 46,052                                |          |                    | 46,040                      |          |                    |
| Total liabilities and equity  | \$ 249,670                            |          |                    | \$ 239,980                  |          |                    |
| Net interest income <sup>(1)</sup>                                      |                                       | \$ 4,098 |                    |                             | \$ 4,535 |                    |
| Interest rate spread <sup>(3)</sup>                                     |                                       |          | 1.64%              |                             |          | 1.86%              |
| Net interest-earning assets <sup>(4)</sup>                              | \$ 51,310                             |          |                    | \$ 44,963                   |          |                    |
| Net interest margin <sup>(5)</sup>                                      |                                       |          | 1.75%              |                             |          | 2.02%              |
| Average interest-earning assets to average-interest bearing liabilities |                                       | 128.16%  |                    |                             | 125.12%  |                    |

(1) Includes dividend income from the FHLB of Chicago stock which is included in "Other Income" in the December 31, 2020 financial statements.

(2) Other borrowing consists of 0% interest rate FHLB of Chicago advances.

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

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

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

**Rate/Volume Analysis.** The following table shows the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities affected our interest income and expense during the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in rate, which is the change in rate multiplied by prior year volume, and (2) changes in volume, which is the change in volume multiplied by prior year rate. The combined effect of changes in both rate and volume has been allocated proportionately to the change due to rate and the change due to volume.

|   | Years Ended December 31, 2021 vs. 2020 |          |                        |
|---|--|----------|------------------------|
|   | Increase (Decrease) Due to             |          | Total                  |
|   | Volume                                 | Rate     | Increase<br>(Decrease) |
|   | (Dollars in thousands)                 |          |                        |
| <b>Interest-earning assets:</b>                                 |  |          |                        |
| Loans   | \$ (248)                               | \$ (269) | \$ (517)               |
| Federal funds sold and interest-bearing deposits in other banks | (5)                                    | (88)     | (93)                   |
| Time deposits in other banks                                    | (166)                                  | (147)    | (313)                  |
| Investment securities   | 420                                    | (482)    | (62)                   |
| FHLB of Chicago stock <sup>(1)</sup>                            | —                                      | —        | —                      |
| Total interest-earning assets                                   | \$ 1                                   | \$ (986) | \$ (985)               |
| <b>Interest-bearing liabilities:</b>                            |  |          |                        |
| Interest-bearing demand   | \$ 2                                   | \$ (6)   | \$ (4)                 |
| Money market  | (19)                                   | (127)    | (146)                  |
| Savings   | 11                                     | (40)     | (29)                   |
| Time deposit  | (46)                                   | (323)    | (369)                  |
| Total interest-bearing liabilities                              | \$ (52)                                | \$ (496) | \$ (548)               |
| Change in net interest income                                   | \$ 53                                  | \$ (490) | \$ (437)               |

(1) Includes dividend income from the FHLB of Chicago stock which is included in “Other Income” in the December 31, 2020 financial statements.

#### Comparison of Operating Results for the Years Ended December 31, 2021 and 2020

**General.** For the year ended December 31, 2021, we had a net loss of \$55,000, compared to a net loss of \$112,000 for the year ended December 31, 2020. The decrease in the net loss in 2021 compared to 2020 was primarily driven by a decrease in the provision for loan losses and non-interest expense. These decreases were partially offset by a decrease in net interest income and a decrease in non-interest income, as well a reduction in the income tax benefit.

**Net Interest Income.** Net interest income decreased \$437,000, or 9.7%, to \$4.1 million for the year ended December 31, 2021 compared to \$4.5 million for the year ended December 31, 2020. Our interest rate spread decreased to 1.64% for the year ended December 31, 2021 from 1.86% for the year ended December 31, 2020, and our net interest margin decreased to 1.75% for the year ended December 31, 2021 from 2.02% for the year ended December 31, 2020. The decrease in interest rate spread and net interest margin was primarily the result of a continuing low interest rate environment which reduced the average yields earned on our interest-earning assets in an amount which more than offset the reduction in the average cost of our interest-bearing liabilities. As the low interest rate environment continued into 2021, higher yielding assets, such as securities available for sale, saw an increase in prepayments. The funds were reinvested in securities available for sale at the current interest rate.

Average interest-earning assets of \$233.5 million in 2021 were \$9.5 million, or 4.3% higher than 2020. The increase in average earning assets was driven by a \$24.6 million, or 35.3%, increase in securities available for sale, as a result of the decision to invest available cash in securities available for sale to achieve a higher yield. This increase was offset by a decrease in time deposits in other banks of \$11.1 million, or 61.6%, as management invested the maturing time deposits in other banks in higher yielding securities available for sale. The average outstanding balance of loans decreased \$2.5 million, or 2.5%, in 2021, resulting in a decrease of interest earned of \$517,000, or 12.7%. The decrease in loans primarily came from the multi-family loans, which are generally higher yielding loans, as compared to one- to four-family residential mortgage loans. The average yield on loans decreased 42 basis points in 2021, to 3.63%, compared to 2020.

Average interest-bearing liabilities increased \$3.2 million, or 1.8%, to \$182.2 million for the year ended December 31, 2021 compared to \$179.0 million for the year ended December 31, 2020. Average yield on interest-bearing liabilities decreased 31 basis points, to 0.52% for the year ended December 31, 2021. On average, interest-bearing deposits increased \$1.0 million, or 0.6%, primarily driven by increases in lower cost deposits, such as demand and savings accounts, offset by decreases in higher cost deposits such as money market and time deposit accounts. The average balance of other borrowings increased \$2.2 million, or 88.6%, which consists of one FHLB advance at a 0.0% interest rate.

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

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

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

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

During the year ended December 31, 2021, a reversal of the provision for loan losses of \$23,000 was recorded, compared to a provision for loan losses of \$464,000 during the year ended December 31, 2020. Our recorded net charge-offs were \$68,000 for the year ended December 31, 2021 compared to net recoveries of \$17,000 for the year ended December 31, 2020. We recorded a reversal of the provision during the year ended December 31, 2021 due to a reduction in average loan balances during the period and general overall improvements to the economy. Our evaluation of the allowance for loan losses continued to give particular consideration to the continuing economic impact of the COVID-19 pandemic. To account for these uncertainties and losses which have been incurred, but not yet identified, we continued to include general reserves of \$140,000 within the allowance for loan losses as of December 31, 2021.

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

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

|  | <b>For the Year Ended December 31,</b> |                 |
|--|--|-----------------|
|  | <b>2021</b>                            | <b>2020</b>     |
| <b>(Dollars in thousands)</b>            |  |                 |
| <b>Noninterest income:</b>               |  |                 |
| Gain on sale of mortgage loans           | \$ 410                                 | \$ 788          |
| Gain on sale of securities               | 131                                    | 59              |
| Rental income on office building         | 42                                     | 42              |
| Service charges on deposits              | 289                                    | 255             |
| Increase in cash surrender value of BOLI | 181                                    | 183             |
| Other                                    | 156                                    | 264             |
| Total noninterest income                 | <u>\$ 1,209</u>                        | <u>\$ 1,591</u> |

Noninterest income decreased \$382,000, or 24.0%, to \$1.2 million for the year ended December 31, 2021, compared to \$1.6 million for the year ended December 31, 2020. The decrease in noninterest income is primarily driven by a decrease in the gain on sale of mortgage loans. During 2021, the Bank sold \$21.2 million loans, for a net gain on sale of \$410,000, compared to loan sales of \$36.5 million and a net gain on sale of \$788,000 during 2020. The decrease was partially offset by an increase in gain on sale of investments. During 2021, the Bank sold \$6.6 million of securities available for sale, for a net gain on sale of \$131,000, compared to \$12.1 million in sales of securities available for sale, for a net gain on sale of \$59,000 during 2022.

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

|                                  | <b>For the year ended December 31,</b> |                 |
|----------------------------------|--|-----------------|
|                                  | <b>2021</b>                            | <b>2020</b>     |
| <b>(Dollars in thousands)</b>    |  |                 |
| <b>Noninterest expense:</b>      |  |                 |
| Salaries and employee benefits   | \$ 3,352                               | \$ 3,691        |
| Equipment and occupancy          | 665                                    | 689             |
| Data processing                  | 613                                    | 565             |
| Professional services            | 139                                    | 484             |
| Advertising                      | 71                                     | 68              |
| Supervisory fees and assessments | 126                                    | 117             |
| Loan expenses                    | 129                                    | 141             |
| Deposit expenses                 | 183                                    | 155             |
| Other                            | 321                                    | 367             |
| Total noninterest expense        | <u>\$ 5,599</u>                        | <u>\$ 6,277</u> |

Noninterest expense decreased \$678,000, or 10.8%, to \$5.6 million for the year ended December 31, 2021, compared to \$6.3 million for the year ended December 31, 2020. The decrease in noninterest expense is driven by a decrease in salaries and employee benefits costs, which decreased \$339,000, or 9.2%. The decrease in salaries and employee benefits costs was driven by a decrease in the number of full-time equivalent employees. The average number of full-time equivalent employees throughout the year ended December 31, 2021 and 2020 was 35 and 39, respectively. Professional services expenses decreased \$345,000 or 71.3%, to \$139,000 for the year ended December 31, 2021, compared to \$484,000 for the year ended December 31, 2020. The decrease in professional services is due to certain costs associated with benefit plan restructuring and other one-time fees expensed in 2020 that are not expected to recur in future periods.

We expect noninterest expense to increase because of costs associated with operating as a newly public company, including the increased compensation expenses associated with the purchase of shares of common stock by our employee stock ownership plan and the possible implementation of stock-based benefit plans, if approved by our stockholders. In addition, we will incur increased noninterest expense related to the implementation of our business strategy related to planned additions to our employee base and potential new loan production office openings.

**Provision for Income Tax Benefit.** Income tax benefit decreased \$289,000, or 57.5%, to \$214,000 for the year ended December 31, 2021 compared to \$503,000 for the year ended December 31, 2020. During 2020, the CARES Act provides that companies are able to carry back current year losses up to five years, resulting in a decrease in the income tax benefit of \$112,000 at December 31, 2021.

#### Exposure to Changes in Interest Rates

Our ability to maintain net interest income depends upon our ability to earn a higher yield on interest-earning assets than the rates we pay on deposits and borrowings. Our interest-earning assets consist primarily of securities available-for-sale and long-term residential and commercial mortgage loans, which have fixed rates of interest. Consequently, our ability to maintain a positive spread between the interest earned on assets and the interest paid on deposits and borrowings can be adversely affected when market rates of interest rise.

**Net Portfolio Value Analysis.** Our interest rate sensitivity is monitored by management through the use of models which generate estimates of the change in its NPV over a range of interest rate scenarios. NPV represents the market value of portfolio equity, which is different from book value, and is equal to the market value of assets minus the market value of liabilities (that is, the difference between incoming and outgoing discounted cash flows of assets and liabilities) with adjustments made for off-balance sheet items. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The OCC provides a quarterly report on the potential impact of interest rate changes upon the market value of portfolio equity. Management reviews the quarterly reports from the OCC, which show the impact of changing interest rates on net portfolio value. The following table sets forth our NPV as of December 31, 2021 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated.

| Change in Interest Rates In Basis Points (Rate Shock) | Net Portfolio Value    |           |          | NPV as % of Portfolio Value of Assets |        |
|---|------------------------|-----------|----------|---------------------------------------|--------|
|   | Amount                 | \$ Change | % Change | NPV Ratio                             | Change |
|   | (Dollars in thousands) |           |          |                                       |        |
| 300bp   | \$ 57,543              | \$ 3,062  | 5.6%     | 18.2%                                 | 13.5%  |
| 200   | 58,003                 | 3,522     | 6.5%     | 17.9%                                 | 11.5%  |
| 100   | 57,311                 | 2,830     | 5.2%     | 17.2%                                 | 7.5%   |
| Static  | 54,481                 | —         | —        | 16.0%                                 | —      |
| -100  | 50,564                 | (3,917)   | (7.2)%   | 14.7%                                 | (8.6)% |
| -200  | 53,185                 | (1,296)   | (2.4)%   | 15.3%                                 | (4.6)% |

**Net Interest Income Analysis.** In addition to modeling changes in NPV, we also analyze potential changes to net interest income (“NII”) for a 12-month period under rising and falling interest rate scenarios. The following table shows our NII model as of December 31, 2021.

| Change in Interest Rates in Basis Points (Rate Shock) | Net Interest Income    |           | % Change |
|---|------------------------|-----------|----------|
|   | Income                 | \$ Change |          |
|   | (Dollars in thousands) |           |          |
| 300bp   | \$ 7,085               | \$ 2,420  | 51.9%    |
| 200   | 6,431                  | 1,766     | 37.9%    |
| 100   | 5,641                  | 976       | 20.9%    |
| Static  | 4,665                  | —         | 0.0%     |
| -100  | 4,180                  | (485)     | (10.4)%  |
| -200  | 4,057                  | (608)     | (13.0)%  |

The table above indicates that as of December 31, 2021, in the event of an immediate and sustained 300 basis point increase in interest rates, our net interest income for the twelve months ending December 31, 2022 would be expected to increase by \$2.4 million, or 51.9% to \$7.1 million.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The above table assumes that the composition of our interest sensitive assets and liabilities existing at the date indicated remains constant uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our NPV and will differ from actual results.

**Liquidity and Capital Resources**

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

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, and proceeds from maturities of securities. We also have the ability to borrow from the FHLB of Chicago. At December 31, 2021, we had \$5.0 million outstanding in advances from the FHLB of Chicago and had the capacity to borrow approximately an additional \$55.8 million from the FHLB of Chicago.

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

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by (used in) operating activities was \$1.5 million and \$(620,000) for the year ended December 31, 2021 and 2020, respectively. Net cash used in investing activities, which consists primarily of net change in loans receivable and net change in investment securities, was \$11.9 million and \$5.9 million for the years ended December 31, 2021 and 2020, respectively. Net cash provided by financing activities, consisting primarily of the activity in deposit accounts and FHLB of Chicago advances, was \$100.1 million and \$6.0 million for the years ended December 31, 2021 and 2020, 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 December 31, 2021, totaled \$39.9 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 December 31, 2021, North Shore Trust and Savings was well capitalized under the regulatory framework for prompt corrective action. During the year ended December 31, 2020, North Shore Trust and Savings elected to begin using the CBLR. Under CBLR, if a qualifying depository institution or depository institution holding company elects to use such measure, such institution or holding company will be considered well capitalized if its ratio of Tier 1 capital to average total consolidated assets (i.e., leverage ratio) exceeds 9% in 2020 and 8.5% in 2021, subject to a limited two quarter grace period, during which the leverage ratio cannot go 100 basis points below the then applicable threshold, and will not be required to calculate and report risk-based capital ratios. North Shore Trust and Savings' Tier 1 capital to Average Assets was 16.11% and 18.41% at December 31, 2021 and 2020, respectively.

**Off-Balance Sheet Arrangements.** At December 31, 2021, we had \$219,000 of outstanding commitments to originate loans. Our total letters and lines of credit and unused lines of credit totaled \$4.0 million at December 31, 2021.

**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 December 31, 2021.

|                                | Total Amounts<br>Committed at<br>December 31,<br>2021 | 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          | \$ 4,001  | \$ 527                                       | \$ 926    | \$ 966    | \$ 1,582      |
| Commitments to originate loans | 219   | 219  | —         | —         | —             |
| Total commitments              | \$ 4,220  | \$ 746                                       | \$ 926    | \$ 966    | \$ 1,582      |

**Contractual Cash Obligations.** The following table summarizes our contractual cash obligations at December 31, 2021.

|                               | Total at<br>December 31,<br>2021 | Payments Due By Period |           |           |               |
|-------------------------------|----------------------------------|------------------------|-----------|-----------|---------------|
|                               |                                  | To 1 Year              | 1-3 Years | 4-5 Years | After 5 Years |
|                               |                                  | (Dollars in thousands) |           |           |               |
| Time deposits                 | \$ 72,874                        | \$ 39,927              | \$ 24,545 | \$ 8,402  | \$ —          |
| Other borrowings              | 5,000                            | 5,000                  | —         | —         | —             |
| Total contractual obligations | \$ 77,874                        | \$ 44,927              | \$ 24,545 | \$ 8,402  | \$ —          |

### Impact of Inflation and Changing Prices

The financial statements and related financial data presented herein regarding North Shore Trust and Savings have been prepared in accordance with accounting principles generally accepted in the United States of America, which generally require the measurement of financial position and operating results in terms of historical dollars, without considering changes in relative purchasing power over time due to inflation. Unlike most industrial companies, virtually all of our assets and liabilities are monetary in nature. As a result, interest rates generally have a more significant impact on North Shore Trust and Savings' performance than does the effect of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services, since such prices are affected by inflation to a larger extent than interest rates.

### Current Accounting Developments

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

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

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

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

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For information regarding market risk, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations".

### Item 8. Financial Statements and Supplementary Data

The consolidated Financial Statements, including supplemental data, of North Shore MHC and its consolidated subsidiaries begins on page [40](#) of this Annual Report on Form 10-K.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

## **Item 9A. Controls and Procedures**

### ***Evaluation of Disclosure Controls & Procedures***

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 December 31, 2021, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by NSTS Bancorp, Inc. 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 NSTS Bancorp, Inc.'s management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

### ***Evaluation of Internal Control Over Financial Reporting***

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of NSTS Bancorp, Inc.'s registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

### ***Changes in Internal Control Over Financial Reporting***

There were no changes made in our internal control over financial reporting during the quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, NSTS Bancorp, Inc.'s internal control over financial reporting.

## **Item 9B. Other Information**

Not Applicable.

## **Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

None.

## **PART III**

## **Item 10. Directors, Executive Officers and Corporate Governance**

NSTS Bancorp, Inc. has adopted a Code of Ethics that applies to its principal executive officer and principal financial officer, as well as all of its senior officers. A copy of the Code of Ethics is available on our website at <https://ir.northshoretrust.com>, or upon written request to Ms. Christine Stickler at 700 S. Lewis Ave., Waukegan, Illinois 60085 without charge. If we amend or grant any waiver from a provision of our Code of Ethics that applies to our executive officers, we will publicly disclose such amendment or waiver on our website and as required by applicable law, including by filing a Current Report on Form 8-K.

The information required by this Item is incorporated herein by reference to the sections captioned "Proposal I – Election of Directors" and "Stockholder Proposals and Nominations" in NSTS Bancorp, Inc.'s definitive Proxy Statement for its 2022 Annual Meeting of Stockholders, a copy of which will be filed with the SEC no later than 120 days after the end of our fiscal year (the "Proxy Statement").

## **Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference to the sections captioned "Executive and Director Compensation" in the Proxy Statement.



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

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

Not applicable. NSTS Bancorp, Inc. has not adopted any stock-based compensation plans as of December 31, 2021.

**(b) *Security Ownership of Certain Beneficial Owners***

The information required by this Item is incorporated herein by reference to the section captioned "Beneficial Ownership" in the Proxy Statement.

**(c) *Security Ownership of Management***

The information required by this Item is incorporated herein by reference to the section captioned "Beneficial Ownership" in the Proxy Statement.

**(d) *Changes in Control***

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

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated herein by reference to the sections captioned "Transactions with Certain Related Persons," "Corporate Governance— Board Independence" and "Corporate Governance — Meetings and Committees of the Board of Directors" in the Proxy Statement.

**Item 14. Principal Accountant Fees and Services**

The information required by this Item is incorporated herein by reference to the section captioned "Proposal II—Ratification of Appointment of Independent Registered Public Accounting Firm" in the Proxy Statement.

**PART IV**

**Item 15. Exhibit and Financial Statement Schedules**

| <u>Exhibit<br/>Number</u> |   |
|---------------------------|---|
| 2.1                       | <a href="#">Plan of Conversion of North Shore MHC, as amended</a> <sup>(1)</sup>  |
| 3.1                       | <a href="#">Certificate of Incorporation of NSTS Bancorp, Inc.</a> <sup>(1)</sup>   |
| 3.2                       | <a href="#">Bylaws of NSTS Bancorp, Inc.</a> <sup>(1)</sup>   |
| 4.1                       | <a href="#">Description of NSTS Bancorp, Inc.'s securities registered under the Securities Exchange Act of 1934, as amended</a>                                       |
| 10.1                      | <a href="#">Employment Agreement by and among NSTS Bancorp, Inc., North Shore Trust and Savings and Stephen G. Lear dated January 18, 2022*</a>                       |
| 10.2                      | <a href="#">Change in Control Agreement by and between North Shore Trust and Savings and Nathan E. Walker dated January 18, 2022*</a>                                 |
| 10.3                      | <a href="#">Change in Control Agreement by and between North Shore Trust and Savings and Carissa H. Schoolcraft dated January 18, 2022*</a>                           |
| 10.4                      | <a href="#">Change in Control Agreement by and between North Shore Trust and Savings and Amy L. Avakian dated January 18, 2022*</a>                                   |
| 10.5                      | <a href="#">Change in Control Agreement by and between North Shore Trust and Savings and Christine E. Stickler dated January 18, 2022*</a>                            |
| 21.1                      | <a href="#">Subsidiaries of NSTS Bancorp, Inc.</a>  |
| 24.1                      | <a href="#">Power of Attorney (set forth on signature page)</a>   |
| 31.1                      | <a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>   |
| 31.2                      | <a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>   |
| 32.1                      | <a href="#">Certifications pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>                                    |
| 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 (Embedded within the Inline XBRL document and included in Exhibit 101)   |

\* Indicates a management contract or compensatory plan.

(1) Filed as an exhibit to NSTS Bancorp, Inc.'s Registration Statement on Form S-1 (File No. 333-259483) and incorporated herein by reference.

**Item 16. Form 10-K Summary**

None.

INDEX TO CONSOLIDATED FINANCIAL STATEMENT OF NORTH SHORE MHC

**2021 and 2020 Consolidated Annual Financial Statements**

|  |                    |
|--|--------------------|
| <a href="#">Report of Independent Registered Public Accounting Firm</a>  | <a href="#">41</a> |
| <a href="#">Consolidated Balance Sheets at December 31, 2021 and 2020</a>                                      | <a href="#">42</a> |
| <a href="#">Consolidated Statements of Operations for the years ended December 31, 2021 and 2020</a>           | <a href="#">43</a> |
| <a href="#">Consolidated Statements of Comprehensive Income for the years ended December 31, 2021 and 2020</a> | <a href="#">44</a> |
| <a href="#">Consolidated Statements of Members' Equity for the years ended December 31, 2021 and 2020</a>      | <a href="#">45</a> |
| <a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020</a>           | <a href="#">46</a> |
| <a href="#">Notes to Consolidated Financial Statements</a>   | <a href="#">47</a> |

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors of North Shore MHC

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of North Shore MHC and Subsidiaries (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, members' equity, and cash flows for each of the years in the two-year period ended December 31, 2021, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

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

/s/ Plante & Moran, PLLC

We have served as the Company's auditor since 2019.

Chicago, Illinois

March 22, 2022

**NORTH SHORE MHC AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

|   | Year ended December 31, |            |
|---|-------------------------|------------|
|   | 2021                    | 2020       |
|   | (Dollars in thousands)  |            |
| <b>Assets:</b>                                  |                         |            |
| Cash and due from banks                         | \$ 814                  | \$ 884     |
| Interest-bearing bank deposits                  | 120,797                 | 30,984     |
| Cash and cash equivalents                       | 121,611                 | 31,868     |
| Time deposits with other financial institutions | 3,469                   | 12,436     |
| Securities available for sale                   | 100,950                 | 81,620     |
| Federal Home Loan Bank stock                    | 550                     | 512        |
| Loans held for sale                             | 104                     | 1,972      |
| Loans, net of unearned income                   | 97,313                  | 99,325     |
| Allowance for loan losses                       | (779)                   | (870)      |
| Loans, net                                      | 96,534                  | 98,455     |
| Premises and equipment, net                     | 5,087                   | 5,213      |
| Accrued interest receivable                     | 641                     | 672        |
| Bank-owned life insurance (BOLI)                | 9,071                   | 8,890      |
| Other assets                                    | 2,852                   | 581        |
| Total assets                                    | \$ 340,869              | \$ 242,219 |
| <b>Liabilities:</b>                             |                         |            |
| Deposits:                                       |                         |            |
| Noninterest bearing                             | \$ 99,090               | \$ 9,734   |
| Interest-bearing                                |                         |            |
| Demand and NOW checking                         | 17,931                  | 16,364     |
| Money market                                    | 45,414                  | 50,143     |
| Savings   | 50,312                  | 42,251     |
| Time deposits over \$250,000                    | 9,380                   | 10,705     |
| Other time deposits                             | 63,494                  | 57,207     |
| Total deposits                                  | 285,621                 | 186,404    |
| Escrow deposits                                 | 1,442                   | 1,519      |
| Other borrowings                                | 5,000                   | 4,000      |
| Accrued expenses and other liabilities          | 3,623                   | 3,571      |
| Total liabilities                               | 295,686                 | 195,494    |
| <b>Members' equity:</b>                         |                         |            |
| Retained earnings                               | 45,264                  | 45,319     |
| Accumulated other comprehensive income, net     | (81)                    | 1,406      |
| Total members' equity                           | 45,183                  | 46,725     |
| Total liabilities and members' equity           | \$ 340,869              | \$ 242,219 |

*See accompanying notes to consolidated financial statements*

**NORTH SHORE MHC AND SUBSIDIARIES**  
**Consolidated Statements of Operations**

|  | Year ended December 31, |          |
|--|-------------------------|----------|
|  | 2021                    | 2020     |
|  | (Dollars in thousands)  |          |
| <b>Interest income:</b>                                    |                         |          |
| Loans, including fees                                      | \$ 3,569                | \$ 4,086 |
| Securities   |                         |          |
| Taxable  | 1,107                   | 1,146    |
| Tax-exempt   | 248                     | 271      |
| Federal funds sold and other                               | 35                      | 128      |
| Time deposits with other financial institutions            | 66                      | 379      |
| FHLB Stock   | 13                      | 13       |
| Total interest income                                      | 5,038                   | 6,023    |
| <b>Interest expense:</b>                                   |                         |          |
| Deposits   | 940                     | 1,488    |
| <b>Net interest income</b>                                 | 4,098                   | 4,535    |
| <b>(Reversal of) Provision for loan losses</b>             | (23)                    | 464      |
| <b>Net interest income after provision for loan losses</b> | 4,121                   | 4,071    |
| <b>Noninterest income:</b>                                 |                         |          |
| Gain on sale of mortgage loans                             | 410                     | 788      |
| Gain on sale of securities                                 | 131                     | 59       |
| Rental income on office building                           | 42                      | 42       |
| Service charges on deposits                                | 289                     | 255      |
| Increase in cash surrender value of BOLI                   | 181                     | 183      |
| Other  | 156                     | 264      |
| Total noninterest income                                   | 1,209                   | 1,591    |
| <b>Noninterest expense:</b>                                |                         |          |
| Salaries and employee benefits                             | 3,352                   | 3,691    |
| Equipment and occupancy                                    | 665                     | 689      |
| Data processing  | 613                     | 565      |
| Professional services                                      | 139                     | 484      |
| Advertising  | 71                      | 68       |
| Supervisory fees and assessments                           | 126                     | 117      |
| Loan expenses  | 129                     | 141      |
| Deposit expenses   | 183                     | 155      |
| Other  | 321                     | 367      |
| Total noninterest expense                                  | 5,599                   | 6,277    |
| Losses before income taxes                                 | (269)                   | (615)    |
| <b>Income tax benefit</b>                                  | (214)                   | (503)    |
| <b>Net losses</b>  | \$ (55)                 | \$ (112) |

*See accompanying notes to consolidated financial statements*

**NORTH SHORE MHC AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**

|   | Year ended December 31, |          |
|---|-------------------------|----------|
|   | 2021                    | 2020     |
|   | (Dollars in thousands)  |          |
| <b>Net income (losses)</b>  | \$ (55)                 | \$ (112) |
| <b>Unrealized net holding gain (loss) on securities</b>   |                         |          |
| Unrealized net holding gain (loss) on securities arising during period, net of realized gains on sales of \$131,000 and \$59,000, in the years ended December 31, 2021 and 2020, respectively | (2,080)                 | 1,501    |
| Tax effect  | 593                     | (428)    |
| Other comprehensive income, net of taxes  | (1,487)                 | 1,073    |
| <b>Comprehensive income (loss)</b>  | \$ (1,542)              | \$ 961   |

*See accompanying notes to consolidated financial statements*

**NORTH SHORE MHC AND SUBSIDIARIES**  
**Consolidated Statements of Members' Equity**

|   | Retained earnings | Accumulated other<br>comprehensive<br>income (loss) |  | Total     |  |
|---|-------------------|---|--|-----------|--|
|   |                   | (Dollars in thousands)                              |  |           |  |
| <b>Balance at January 1, 2020</b>                                   | \$ 45,431         | \$ 333  |  | \$ 45,764 |  |
| Net losses  | (112)             | —   |  | (112)     |  |
| Change in net unrealized gain on securities available for sale, net | —                 | 1,073   |  | 1,073     |  |
| <b>Balance at December 31, 2020</b>                                 | 45,319            | 1,406   |  | 46,725    |  |
| Net losses  | (55)              | —   |  | (55)      |  |
| Change in net unrealized loss on securities available for sale, net | —                 | (1,487)   |  | (1,487)   |  |
| <b>Balance at December 31, 2021</b>                                 | \$ 45,264         | \$ (81)   |  | \$ 45,183 |  |

*See accompanying notes to consolidated financial statements*



**NORTH SHORE MHC AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**

|   | Year ended December 31, |                  |
|---|-------------------------|------------------|
|   | 2021                    | 2020             |
|   | (Dollars in thousands)  |                  |
| <b>Cash flows from operating activities:</b>  |                         |                  |
| Net losses  | \$ (55)                 | \$ (112)         |
| Adjustments to reconcile net losses to net cash (used in) provided by operating activities: |                         |                  |
| Depreciation  | 268                     | 290              |
| Securities amortization and accretion, net  | 1,323                   | 835              |
| Loans originated for sale   | (19,302)                | (37,725)         |
| Proceeds from sales of loans held for sale  | 21,580                  | 37,263           |
| Gain on sale of mortgage loans  | (410)                   | (788)            |
| Gain on sale of securities available for sale   | (131)                   | (59)             |
| Gain on sale of OREO  | (7)                     | —                |
| Gain on transfer to OREO  | (15)                    | —                |
| (Reversal of) Provision for loan losses   | (23)                    | 464              |
| Earnings on bank owned life insurance   | (181)                   | (183)            |
| Increase in accrued interest receivable and other assets                                    | (1,647)                 | (272)            |
| Net increase (decrease) in accrued expenses and other liabilities                           | 52                      | (333)            |
| Net cash provided by (used in) operating activities   | 1,452                   | (620)            |
| <b>Cash flows from investing activities:</b>  |                         |                  |
| Net (increase) decrease in portfolio loans  | 1,772                   | (1,241)          |
| Principal repayments on mortgage-backed securities  | 17,552                  | 12,730           |
| Purchases of securities available for sale  | (48,968)                | (38,631)         |
| Sales of securities available for sale  | 6,769                   | 12,112           |
| Maturities and calls of securities available for sale                                       | 2,045                   | 1,465            |
| Purchase of Federal Home Loan Bank Stock  | (38)                    | —                |
| Proceeds from sale of other real estate owned   | 194                     | —                |
| Decrease in time deposits with other financial institutions, net                            | 8,967                   | 7,735            |
| Purchases of premises and equipment, net  | (142)                   | (104)            |
| Net cash used in investing activities   | (11,849)                | (5,934)          |
| <b>Cash flows from financing activities:</b>  |                         |                  |
| Net change in deposits  | 99,217                  | 2,033            |
| Net change in escrow deposits   | (77)                    | 10               |
| Repayment of FHLB Advance   | (4,000)                 | —                |
| Proceeds from FHLB Advance  | 5,000                   | 4,000            |
| Net cash provided by financing activities   | 100,140                 | 6,043            |
| Net change in cash and cash equivalents   | 89,743                  | (511)            |
| Cash and cash equivalents at beginning of period  | 31,868                  | 32,379           |
| <b>Cash and cash equivalents at end of period</b>   | <b>\$ 121,611</b>       | <b>\$ 31,868</b> |
| <b>Supplemental disclosures of cash flow information:</b>                                   |                         |                  |
| Loans transferred to OREO   | \$ 172                  | \$ —             |
| Cash paid during the period for: Interest   | 948                     | 1,543            |
| Income taxes  | —                       | 37               |

*See accompanying notes to consolidated financial statements*

## **Note 1: Summary of Significant Accounting Policies**

The accompanying consolidated financial statements (“the financial statements”) have been prepared in conformity with accounting principles generally accepted in the United States of America and conform to practices within the banking industry.

### **Nature of Operations**

NSTS Bancorp, Inc. was formed to serve as the stock holding company for North Shore Trust and Savings (the “Bank”) in connection with the conversion of North Shore Trust and Savings, NSTS Financial Corporation and North Shore MHC, into the stock form of organization, which was completed on January 18, 2022. As of December 31, 2021, the conversion had not yet been completed and NSTS Bancorp, Inc. had not conducted any business activities other than organizational activities. As of December 31, 2021, NSTS Bancorp, Inc. had received payments totaling \$87.3 million from potential investors in connection with the stock offering. These funds were held in a deposit account at the Bank. Accordingly, the audited financial statements, as well as other financial information at or prior to January 18, 2022, contained in this Annual Report on Form 10-K relate solely to the consolidated financial results of North Shore MHC and its consolidated subsidiaries, NSTS Financial Corporation and North Shore Trust and Savings.

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

These financial statements include the accounts of North Shore MHC, a federal mutual holding company; its wholly owned subsidiary NSTS Financial Corporation, a stock holding company; and North Shore Trust and Savings (the “Bank”), a federal stock savings bank.

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

All significant intercompany balances and transactions have been eliminated in consolidation.

Certain amounts in prior year financial statements have been reclassified to conform to the 2021 presentation.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank’s loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors’ ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments of information available to them at the time of their examination. Due to these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Additional material estimates that are particularly susceptible to significant change in the near term include the determination of the valuation allowance on deferred tax assets and the valuation of investment securities.

### **Comprehensive Income**

Comprehensive income includes net income (losses) and other changes in net worth which bypass the statement of operations. For all periods presented, other comprehensive income includes only one additional component, the change in unrealized gains and losses on available-for-sale investment securities.

### **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand and amounts due from banks, including cash items in process of clearing.

### **Time Deposits with Other Financial Institutions**

Time deposits with other financial institutions are carried at cost and generally mature within the next two years.

## **Investment Securities**

Securities are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Discounts are accreted into interest income over the estimated life of the related security and premiums are amortized against income over the earlier of the call date or weighted average life of the related security using the level yield method. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Securities available-for-sale are securities that are intended to be held for indefinite periods of time, but which may not be held to maturity. These securities may be used as a part of the Bank's asset/liability management strategy and may be sold in response to changes in interest rates, deterioration of issuer's creditworthiness, or due to a desire to increase liquidity.

The Bank conducts a periodic review of available-for-sale securities with declines in fair value below their cost to evaluate if the impairment is other than temporary. In estimating other-than-temporary impairment, management considers (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Credit-related impairments of debt securities are recorded through earnings, and any impairment as a result of other factors is included in accumulated other comprehensive income.

## **Federal Home Loan Bank Stock**

The Bank, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market price and is carried at cost of \$550,000 and \$512,000 at December 31, 2021 and 2020 and is evaluated for impairment at each reporting date.

## **Loans Held for Sale**

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or market value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold with servicing rights released. Gains or losses are recognized through earnings.

## **Loans**

The Bank's loan portfolio includes segments for mortgage loans and consumer loans. Mortgage loans include classes for 1-4 family, multi-family, and commercial.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment to the related loan yield using the interest method, adjusted for prepayments.

The accrual of interest on all loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until the loans qualify for return to accrual. Loans are returned to accrual status when payment of all the principal and interest amounts contractually due is reasonably assured.

## **Allowance for Loan Losses**

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

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general and allocated components, as further described below.

*General Component*

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: first mortgage loans and consumer loans. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards, and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Mortgage Loans

1-4 family mortgage loans in this segment are made to individuals. The loans are secured by real estate with the Bank typically in a first lien position. The Bank generally does not originate loans with a loan-to-value ratio greater than 80% unless mortgage insurance is obtained and generally does not grant loans that would be classified as subprime upon origination. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Although terms for commercial real estate and multi-family residential loans vary, our underwriting standards generally allow for terms not exceeding 30 years and loan-to-value ratios of not more than 75%. Interest rates are typically adjustable, based upon designated market indices such as *The Wall Street Journal* prime rate, or fixed-rate, and fees are charged to the borrower at the origination of the loan. The actual lives of such loans generally are less than their contractual terms to maturity due to prepayments and re-financings. Generally, we obtain personal guarantees of the principals as additional collateral for commercial real estate and multi-family residential loans.

Commercial real estate and multi-family residential lending involve a greater degree of risk than one- to four-family residential lending. These risks include larger loans to individual borrowers and loan payments that are dependent upon the successful operation of the project or the borrower's business. These risks can be affected by supply and demand conditions of rental housing units, office and retail space and other commercial space in the project's market area. We attempt to minimize these risks for loans we originate by soliciting loans from businesses with existing operating performance. We also use conservative debt coverage ratios in our underwriting, and periodically monitor the operation of the business or project and the physical condition of the property.

Consumer Loans

Loans in this segment are generally to individuals and are supported by non-real estate collateral, such as deposit accounts and personal property. Unsecured loans are also included in this segment. Repayment is dependent on the credit quality of the individual borrower or borrowers.

*Allocated Component*

The allocated component relates to loans that are classified as impaired. Based on internal ratings, loans are evaluated for impairment on a loan-by-loan basis. Impairment is measured by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all circumstances surrounding the loan and borrower, including the length of the delay, reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the amount of principal and interest owed.

The Bank periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDRs are classified as impaired and management performs an impairment analysis at the time of restructuring.

**Premises and Equipment**

Land is stated at cost. Property, improvements, and equipment are stated at cost less accumulated depreciation. Depreciation is determined under the straight-line method over the following estimated useful lives of assets:

|                                  | Years   |
|----------------------------------|---------|
| Land improvements                | 3 - 10  |
| Office building and improvements | 10 - 40 |
| Furniture and equipment          | 3 - 10  |

**Income Taxes**

Deferred taxes are recognized using the asset/liability method. Deferred tax assets are recognized for deductible temporary differences, operating loss and tax credit carryforwards; deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceed the amount measured as described above, if any, is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits, if any, are classified as additional income taxes in the statement of operations. Bank management believes that the Bank maintains no uncertain tax positions for tax reporting purposes and accordingly, no liability is required to be recorded.

The Bank is subject to U.S. federal income tax as well as income tax of the States of Illinois and Wisconsin.

#### **Other Real Estate Owned**

Property acquired in satisfaction of debt or through foreclosure is carried at the lower of cost or market value less estimated costs to sell. At foreclosure, if the fair value of the property acquired is less than the recorded investment in the related loan, a reduction in the carrying amount of the loan is recognized with a charge to the allowance for loan losses. The cost of carrying the assets subsequent to foreclosure and any decrease in the market value occurring after that date are charged to operating expenses as incurred.

#### **Bank-owned Life Insurance**

The Bank purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at the amount estimated to be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or amounts due which are probable at settlement.

#### **Service Charges on Deposits**

Service charges on deposits represent general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue, or some other individual attribute-based revenue. Revenue is recognized when the Bank's performance obligation is completed, which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time performance obligations are satisfied.

#### **Dividend Restrictions**

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to its stockholders.

#### **Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Bank, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

**Note 2: Securities**

The amortized cost and estimated fair value of debt securities at December 31, 2021 and 2020, by contractual maturity, are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties, therefore, these securities have been included in 1 to 5 years based on average remaining life.

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

| December 31, 2020       | U.S.<br>government<br>agency<br>obligations | Municipal<br>obligations | Mortgage-<br>backed<br>residential<br>obligations | Collateralized<br>mortgage<br>obligations | Total available-<br>for-sale |
|-------------------------|---|--------------------------|---|---|------------------------------|
| (Dollars in thousands)  |   |                          |   |   |                              |
| 1 year or less          | \$ 1,000                                    | \$ 769                   | \$ 1,443  | \$ 382                                    | \$ 3,594                     |
| 1 to 5 years            | 4,863                                       | 3,726                    | 34,485  | 14,452                                    | 57,526                       |
| 5 to 10 years           | 1,284                                       | 4,353                    | 7,166   | 5,565                                     | 18,368                       |
| After 10 years          | —   | 2,132                    | —   | —   | \$ 2,132                     |
| Fair value              | \$ 7,147                                    | \$ 10,980                | \$ 43,094   | \$ 20,399                                 | \$ 81,620                    |
| Gross unrealized gains  | 153   | 518                      | 883   | 534                                       | \$ 2,088                     |
| Gross unrealized losses | (17)  | (18)                     | (21)  | (66)                                      | \$ (122)                     |
| Amortized cost          | \$ 7,011                                    | \$ 10,480                | \$ 42,232   | \$ 19,931                                 | \$ 79,654                    |

As of December 31, 2021 and 2020, no securities were pledged to secure public deposits or for other purposes as required or permitted by law. At December 31, 2021 and 2020, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of members' equity.

Information pertaining to securities with gross unrealized losses at December 31, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

| December 31, 2021                       | Less than 12 Months |                      | 12 Months or Longer |                      | Total         |                      |
|---|---------------------|----------------------|---------------------|----------------------|---------------|----------------------|
|   | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| (Dollars in thousands)                  |                     |                      |                     |                      |               |                      |
| U.S. government agency obligations      | \$ 4,020            | \$ 62                | \$ 1,105            | \$ 16                | \$ 5,125      | \$ 78                |
| Municipal obligations                   | 2,399               | 8                    | 247                 | 6                    | 2,646         | 14                   |
| Mortgage-backed residential obligations | 26,540              | 535                  | 2,781               | 77                   | 29,321        | 612                  |
| Collateralized mortgage obligations     | 16,715              | 338                  | 4,386               | 105                  | 21,101        | 443                  |
| Total                                   | \$ 49,674           | \$ 943               | \$ 8,519            | \$ 204               | \$ 58,193     | \$ 1,147             |
| <b>December 31, 2020</b>                |                     |                      |                     |                      |               |                      |
| U.S. government agency obligations      | \$ 1,284            | \$ 17                | \$ —                | \$ —                 | \$ 1,284      | \$ 17                |
| Municipal obligations                   | —                   | —                    | 238                 | 18                   | 238           | 18                   |
| Mortgage-backed residential obligations | 5,265               | 16                   | 1,170               | 5                    | 6,435         | 21                   |
| Collateralized mortgage obligations     | 8,694               | 66                   | 241                 | —                    | 8,935         | 66                   |
| Total                                   | \$ 15,243           | \$ 99                | \$ 1,649            | \$ 23                | \$ 16,892     | \$ 122               |

At December 31, 2021 and 2020, certain investment securities were in unrealized loss positions. Some investment securities have declined in value but do not presently represent realized losses. Unrealized losses on investment securities have not been recognized into income because the issuers' bonds are of high credit quality, the Bank has the intent and ability to hold the securities for the foreseeable future, and the declines in fair value are primarily due to market volatility. The fair values are expected to recover as the bonds approach their maturity dates.

The following table represents the proceeds from the sale of securities available-for-sale and the related gross gains and losses during the periods presented.

|  | At December 31, |           |
|--|-----------------|-----------|
|  | 2021            | 2020      |
| (Dollars in thousands)   |                 |           |
| Sales of securities available for sale                           | \$ 6,769        | \$ 12,112 |
| Gross gain realized on the sale of securities available for sale | 131             | 114       |
| Gross loss realized on the sale of securities available for sale | —               | (55)      |

**Note 3: Loans**

A summary of loans by major category as of December 31, 2021 and 2020 is as follows:

|                            | 2021                   | 2020      |
|----------------------------|------------------------|-----------|
|                            | (Dollars in thousands) |           |
| First mortgage loans       |                        |           |
| 1-4 family residential     | \$ 88,028              | \$ 87,198 |
| Multi-family               | 3,497                  | 5,736     |
| Commercial                 | 4,604                  | 5,340     |
| Total first mortgage loans | 96,129                 | 98,274    |
| Consumer loans             | 372                    | 385       |
| Total loans                | 96,501                 | 98,659    |
| Net deferred loan costs    | 812                    | 666       |
| Allowance for loan losses  | (779)                  | (870)     |
| Total loans, net           | \$ 96,534              | \$ 98,455 |

First mortgage loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balance of these loans totaled \$15.8 million and \$16.0 million at December 31, 2021 and 2020, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were \$270,000 and \$268,000 at December 31, 2021 and 2020, respectively.

In the normal course of business, loans are made to directors and officers of the Bank (related parties). The terms of these loans, including interest rate and collateral, are similar to those prevailing for comparable transactions with other customers and do not involve more than a normal risk of collectability. At December 31, 2021 and 2020, such borrowers were indebted to the Bank in the aggregate amount of \$556,000 and \$928,000, respectively.



**Note 4: Allowance for Loan Losses**

Changes in the allowance for loan losses and the related loan balance information by portfolio segment as of and for the years ended December 31, 2021 and 2020 were as follows:

|                              | December 31, 2021         |              |            |          |        |
|------------------------------|---------------------------|--------------|------------|----------|--------|
|                              | 1-4 family<br>residential | Multi-family | Commercial | Consumer | Total  |
|                              | (Dollars in thousands)    |              |            |          |        |
| <b>Year ended:</b>           |                           |              |            |          |        |
| Beginning balance            | \$ 798                    | 29           | 38         | 5        | \$ 870 |
| Charge-offs                  | —                         | —            | —          | (99)     | (99)   |
| Recoveries                   | 31                        | —            | —          | —        | 31     |
| Net recoveries (charge-offs) | 31                        | —            | —          | (99)     | (68)   |
| Provision for loan losses    | (154)                     | 40           | (13)       | 104      | (23)   |
| Ending balance               | \$ 675                    | 69           | 25         | 10       | \$ 779 |

|                              | December 31, 2020         |              |            |          |        |
|------------------------------|---------------------------|--------------|------------|----------|--------|
|                              | 1-4 family<br>residential | Multi-family | Commercial | Consumer | Total  |
|                              | (Dollars in thousands)    |              |            |          |        |
| <b>Year ended:</b>           |                           |              |            |          |        |
| Beginning balance            | \$ 362                    | 10           | 9          | 8        | \$ 389 |
| Charge-offs                  | —                         | —            | —          | —        | —      |
| Recoveries                   | 17                        | —            | —          | —        | 17     |
| Net recoveries (charge-offs) | 17                        | —            | —          | —        | 17     |
| Provision for loan losses    | 419                       | 19           | 29         | (3)      | 464    |
| Ending balance               | \$ 798                    | 29           | 38         | 5        | \$ 870 |

The balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2021 and 2020, were as follows:

|                          | Collectively evaluated       |                                    | Individually evaluated       |                                    | Total                        |                                    |
|--------------------------|------------------------------|------------------------------------|------------------------------|------------------------------------|------------------------------|------------------------------------|
|                          | Allowance for<br>loan losses | Recorded<br>investment in<br>loans | Allowance for<br>loan losses | Recorded<br>investment in<br>loans | Allowance for<br>loan losses | Recorded<br>investment in<br>loans |
|                          | (Dollars in thousands)       |                                    |                              |                                    |                              |                                    |
| <b>December 31, 2021</b> |                              |                                    |                              |                                    |                              |                                    |
| 1-4 family residential   | \$ 557                       | \$ 86,892                          | \$ 118                       | \$ 1,136                           | \$ 675                       | \$ 88,028                          |
| Multi-family             | 69                           | 3,497                              | —                            | —                                  | 69                           | 3,497                              |
| Commercial               | 25                           | 4,604                              | —                            | —                                  | 25                           | 4,604                              |
| Consumer                 | 10                           | 372                                | —                            | —                                  | 10                           | 372                                |
| Total                    | \$ 661                       | \$ 95,365                          | \$ 118                       | \$ 1,136                           | \$ 779                       | \$ 96,501                          |
| <b>December 31, 2020</b> |                              |                                    |                              |                                    |                              |                                    |
| 1-4 family residential   | \$ 648                       | \$ 84,775                          | \$ 150                       | \$ 2,423                           | \$ 798                       | \$ 87,198                          |
| Multi-family             | 29                           | 5,736                              | —                            | —                                  | 29                           | 5,736                              |
| Commercial               | 38                           | 5,340                              | —                            | —                                  | 38                           | 5,340                              |
| Consumer                 | 5                            | 286                                | —                            | 99                                 | 5                            | 385                                |
| Total                    | \$ 720                       | \$ 96,137                          | \$ 150                       | \$ 2,522                           | \$ 870                       | \$ 98,659                          |

[Table of Contents](#)

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

Pass

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

Special Mention

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

Substandard

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

Doubtful

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

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

The following table presents loan balances based on risk rating by class of loans as of December 31, 2021 and 2020:

|                          | Pass      | Special<br>Mention | Substandard | Doubtful | Total loans |
|--------------------------|-----------|--------------------|-------------|----------|-------------|
| (Dollars in thousands)   |           |                    |             |          |             |
| <b>December 31, 2021</b> |           |                    |             |          |             |
| 1-4 family residential   | \$ 87,881 | \$ 45              | \$ 102      | \$ —     | \$ 88,028   |
| Multi-family             | 3,497     | —                  | —           | —        | 3,497       |
| Commercial               | 4,604     | —                  | —           | —        | 4,604       |
| Consumer                 | 372       | —                  | —           | —        | 372         |
| Total                    | \$ 96,354 | \$ 45              | \$ 102      | \$ —     | \$ 96,501   |
| <b>December 31, 2020</b> |           |                    |             |          |             |
| 1-4 family residential   | \$ 86,501 | \$ 417             | \$ 280      | \$ —     | \$ 87,198   |
| Multi-family             | 5,736     | —                  | —           | —        | 5,736       |
| Commercial               | 5,340     | —                  | —           | —        | 5,340       |
| Consumer                 | 286       | 99                 | —           | —        | 385         |
| Total                    | \$ 97,863 | \$ 516             | \$ 280      | \$ —     | \$ 98,659   |

The aging of the Bank’s loan portfolio by class of loans as of December 31, 2021 and 2020, is as follows:

|                          | 31-89 Days Past<br>Due and<br>Accruing | Greater than 90<br>Days Past Due<br>and Accruing | Non-Accrual | Total Past Due<br>and Non-<br>Accrual | Current   | Total Loan<br>Balance |
|--------------------------|--|--|-------------|---------------------------------------|-----------|-----------------------|
| (Dollars in thousands)   |  |  |             |                                       |           |                       |
| <b>December 31, 2021</b> |  |  |             |                                       |           |                       |
| 1-4 family residential   | \$ —                                   | \$ 41  | \$ 102      | \$ 143                                | \$ 87,885 | \$ 88,028             |
| Multi-family             | —                                      | —  | —           | —                                     | 3,497     | 3,497                 |
| Commercial               | —                                      | —  | —           | —                                     | 4,604     | 4,604                 |
| Consumer                 | —                                      | —  | —           | —                                     | 372       | 372                   |
| Total                    | \$ —                                   | \$ 41  | \$ 102      | \$ 143                                | \$ 96,358 | \$ 96,501             |
| <b>December 31, 2020</b> |  |  |             |                                       |           |                       |
| 1-4 family residential   | \$ —                                   | \$ 75  | \$ 280      | \$ 355                                | \$ 86,843 | \$ 87,198             |
| Multi-family             | —                                      | —  | —           | —                                     | 5,736     | 5,736                 |
| Commercial               | —                                      | —  | —           | —                                     | 5,340     | 5,340                 |
| Consumer                 | 99                                     | —  | —           | 99                                    | 286       | 385                   |
| Total                    | \$ 99                                  | \$ 75  | \$ 280      | \$ 454                                | \$ 98,205 | \$ 98,659             |

Loans individually evaluated for impairment by class of loans as of December 31, 2021 and 2020, were as follows:

|   | Recorded investment | Unpaid principal balance | Related allowance | Average recorded investment | Interest income recognized |
|---|---------------------|--------------------------|-------------------|-----------------------------|----------------------------|
| (Dollars in thousands)                              |                     |                          |                   |                             |                            |
| <b>December 31, 2021</b>                            |                     |                          |                   |                             |                            |
| With no related allowance recorded                  |                     |                          |                   |                             |                            |
| 1-4 family residential                              | \$ 355              | \$ 595                   | \$ —              | \$ 348                      | \$ 26                      |
| Multi-family  | —                   | —                        | —                 | —                           | —                          |
| Commercial  | —                   | —                        | —                 | —                           | —                          |
| Consumer  | —                   | —                        | —                 | —                           | —                          |
| Total   | \$ 355              | \$ 595                   | \$ —              | \$ 348                      | \$ 26                      |
| With a related allowance recorded                   |                     |                          |                   |                             |                            |
| 1-4 family residential                              | \$ 781              | \$ 797                   | \$ 118            | \$ 797                      | \$ 35                      |
| Multi-family  | —                   | —                        | —                 | —                           | —                          |
| Commercial  | —                   | —                        | —                 | —                           | —                          |
| Consumer  | —                   | —                        | —                 | —                           | —                          |
| Total   | \$ 781              | \$ 797                   | \$ 118            | \$ 797                      | \$ 35                      |
| Total individually assessed as of December 31, 2021 | \$ 1,136            | \$ 1,392                 | \$ 118            | \$ 1,145                    | \$ 61                      |
| <b>December 31, 2020</b>                            |                     |                          |                   |                             |                            |
| With no related allowance recorded                  |                     |                          |                   |                             |                            |
| 1-4 family residential                              | \$ 1,348            | \$ 1,676                 | \$ —              | \$ 1,382                    | \$ 73                      |
| Multi-family  | —                   | —                        | —                 | —                           | —                          |
| Commercial  | —                   | —                        | —                 | —                           | —                          |
| Consumer  | 99                  | 99                       | —                 | 89                          | 6                          |
| Total   | \$ 1,447            | \$ 1,775                 | \$ —              | \$ 1,471                    | \$ 79                      |
| With a related allowance recorded                   |                     |                          |                   |                             |                            |
| 1-4 family residential                              | \$ 1,075            | \$ 1,120                 | \$ 150            | \$ 1,104                    | \$ 51                      |
| Multi-family  | —                   | —                        | —                 | —                           | —                          |
| Commercial  | —                   | —                        | —                 | —                           | —                          |
| Consumer  | —                   | —                        | —                 | —                           | —                          |
| Total   | \$ 1,075            | \$ 1,120                 | \$ 150            | \$ 1,104                    | \$ 51                      |
| Total individually assessed as of December 31, 2020 | \$ 2,522            | \$ 2,895                 | \$ 150            | \$ 2,575                    | \$ 130                     |

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net, due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

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

There were no new troubled debt restructurings during the years ended December 31, 2021 and 2020. In March 2021, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed into law. Among other things, the CARES Act suspends the requirements related to accounting for TDRs for certain loan modifications related to the COVID-19 pandemic.

The Company has minimal direct exposure to consumer, commercial, and other small businesses that may be negatively impacted by COVID-19, but management has analyzed and increased the qualitative factors in these and other loan categories for incurred, but not yet identified loan losses attributable to COVID-19. As of December 31, 2021, management did not see significant disruption with existing customers related to COVID-19. However, Management did grant customer requests to defer payments on 50 loans with unpaid balances of \$9.7 million. As of December 31, 2021, all COVID-19 loan modifications have returned to repayment. Management has also assisted small businesses that could benefit from the CARES Act, particularly in the SBA's Paycheck Protection Program ("PPP"). As of December 31, 2021, the Company has funded approximately \$1.3 million in loans to small businesses under this program since it launched on April 3, 2020. As of December 31, 2021, all PPP loans have been forgiven by the SBA.

#### Note 5: Premises and Equipment

The components of premises and equipment as of December 31, 2021 and 2020, are as follows:

|                               | 2021     | 2020     |
|-------------------------------|----------|----------|
| (Dollars in thousands)        |          |          |
| Land and improvements         | \$ 2,701 | \$ 2,703 |
| Building and improvements     | 6,576    | 6,486    |
| Furniture and equipment       | 1,372    | 1,617    |
| Total gross equipment         | 10,649   | 10,806   |
| Less accumulated depreciation | 5,562    | 5,593    |
| Premises and equipment, net   | \$ 5,087 | \$ 5,213 |

**Note 6: Other Real Estate Owned**

At December 31, 2021 and December 31, 2020, the balance for other real estate owned ("OREO") was \$0.

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

|   | At December 31,        |      |
|---|------------------------|------|
|   | 2021                   | 2020 |
|   | (Dollars in thousands) |      |
| Transfer of loans to OREO               | \$ 172                 | \$ — |
| Sale of OREO                            | 194                    | —    |
| Gross gain realized on transfer to OREO | 15                     | —    |
| Gross gain realized on sale of OREO     | 7                      | —    |

The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is \$60,000 and \$111,000, as of December 31, 2021 and 2020, respectively.

**Note 7: Deposits**

As of December 31, 2021, for years below ended December 31, the scheduled maturities of time deposits are as follows:

| Years Ended     | Amount<br>(Dollars in<br>thousands) |
|-----------------|-------------------------------------|
| 2022            | \$ 39,927                           |
| 2023            | 15,037                              |
| 2024            | 9,508                               |
| 2025            | 5,537                               |
| 2026 and beyond | 2,865                               |
| Total           | \$ 72,874                           |

In the normal course of business, deposit accounts are held by directors and officers of the Bank (related parties). The terms for these accounts, including interest rates, fees, and other attributes, are similar to those prevailing for comparable transactions with other customers and do not involve more than the normal level of risk associated with deposit accounts. At December 31, 2021 and 2020, total deposits held by directors and officers of the Bank was \$1.1 million and \$4.3 million, respectively. Additionally, NSTS Bancorp, Inc. held cash in a non-interest bearing deposit account at North Shore Trust and Savings of \$87.3 million as of December 31, 2021.

**Note 8: Other Borrowings**

On May 21, 2021, the Bank obtained a non-interest bearing FHLB advance totaling \$5.0 million. This advance is collateralized by loans pledged to the FHLB and matures on May 21, 2022. Additionally, on May 21, 2021, the Bank repaid the existing non-interest bearing FHLB advance totaling \$4.0 million that was due on May 24, 2021. The Bank is eligible to borrow up to a total of \$60.8 million and \$61.1 million at December 31, 2021 and 2020, respectively, which is collateralized by \$76.8 million and \$77.3 million of first mortgage loans under a blanket lien arrangement at December 31, 2021 and 2020, respectively.

**Note 9: Income Taxes**

Income tax expense (benefit) for the years ended December 31, 2021 and 2020, is summarized as follows:

|                               | Year Ended December 31, |          |
|-------------------------------|-------------------------|----------|
|                               | 2021                    | 2020     |
|                               | (Dollars in thousands)  |          |
| Current (benefit) expense     |                         |          |
| Federal                       | \$ 62                   | \$ (262) |
| State                         | —                       | 3        |
| Total current benefit         | 62                      | (259)    |
| Deferred benefit              | (379)                   | (233)    |
| Change in valuation allowance | 103                     | (11)     |
| Total deferred benefit        | (276)                   | (244)    |
| Total income tax benefit      | \$ (214)                | \$ (503) |

The difference between the income tax expense shown on the statements of income and the amounts computed by applying the statutory federal income tax rate to income before income taxes is primarily due to tax-exempt income, the change in valuation allowance, and the adjustment of deferred taxes for enacted changes in tax laws. The provision for income taxes differs from that computed as follows:

|  | Year Ended December 31, |          |
|--|-------------------------|----------|
|  | 2021                    | 2020     |
|  | (Dollars in thousands)  |          |
| Income before income tax expense   | \$ (269)                | \$ (615) |
| Tax benefit at statutory federal rate of 21% applied to income before income tax benefit | 56                      | 129      |
| State income tax, net of federal effect  | 51                      | 117      |
| Tax-exempt security and loan income, net of TEFRA adjustments                            | 50                      | 54       |
| BOLI   | 38                      | 38       |
| Other  | 19                      | 165      |
| Total income tax expense   | \$ 214                  | \$ 503   |
| Effective tax rate   | (79.6)%                 | (81.8)%  |

The tax effects of existing temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2021 and 2020, are as follows:

|  | Year Ended December 31, |        |
|--|-------------------------|--------|
|  | 2021                    | 2020   |
|  | (Dollars in thousands)  |        |
| Deferred tax assets                              |                         |        |
| Allowance for loan losses                        | \$ 222                  | \$ 248 |
| Deferred compensation                            | 432                     | 422    |
| Retirement plans                                 | 55                      | 147    |
| Premises held for sale impairment                | 101                     | 101    |
| Unrealized loss on securities available-for-sale | 32                      | —      |
| Federal net operating loss carryforwards         | 218                     | —      |
| Other  | 53                      | 39     |
| State net operating loss carryforwards           | 306                     | 203    |
| Gross deferred tax assets                        | 1,419                   | 1,160  |
| Valuation allowance                              | (306)                   | (203)  |
| Net deferred tax assets                          | 1,113                   | 957    |
| Deferred tax liabilities                         |                         |        |
| FHLB stock dividends                             | (101)                   | (101)  |
| Accumulated depreciation                         | (36)                    | (46)   |
| Unrealized gain on securities available-for-sale | —                       | (561)  |
| Other  | —                       | (142)  |
| Deferred tax liabilities                         | (137)                   | (850)  |
| Net deferred tax asset                           | \$ 976                  | \$ 107 |

The Bank does not expect the total amount of unrecognized tax benefits to change significantly in the next twelve months. Federal net operating losses as of December 31, 2021 and 2020 are \$1.5 million, and \$0, respectively, and do not expire. Net operating loss (NOL) carryforwards for state income tax purposes were approximately \$3.2 million and \$2.3 million at December 31, 2021 and 2020, respectively, and will begin expiring in 2022. Due to the uncertainty that the Bank will be able to generate future state taxable income sufficient to utilize the net operating loss carryforwards, a full valuation allowance was recorded on the related deferred tax asset.

There were no uncertain tax positions outstanding as of December 31, 2021 and 2020. As of December 31, 2021, tax years remaining open for State of Illinois and Wisconsin were 2017 through 2020. Federal tax years that remained open were 2018 through 2020. As of December 31, 2021, there were also no unrecognized tax benefits that are expected to significantly increase or decrease within the next twelve months.

**Note 10: 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 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 December 31, 2021, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification which management believes have changed the Bank's category.

On November 13, 2019, the federal regulators finalized and adopted a regulatory capital rule establishing a new community bank leverage ratio ("CBLR"), which became effective on January 1, 2020. The intent of CBLR is to provide a simple alternative measure of capital adequacy for electing qualifying depository institutions and depository institution holding companies, as directed under the Economic Growth, Relief, and Consumer Protection Act. Under CBLR, if a qualifying depository institution or depository institution holding company elects to use such measure, such institution or holding company will be considered well capitalized if its ratio of Tier 1 capital to average total assets (i.e., leverage ratio) exceeds 9% subject to a limited two quarter grace period, during which the leverage ratio cannot go 100 basis points below the then applicable threshold, and will not be required to calculate and report risk-based capital ratios. In April 2020, under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the 9% leverage ratio threshold was temporarily reduced to 8% in response to the COVID-19 pandemic. The threshold will increase to 8.5% in 2021 and return to 9% in 2022. The Bank elected to begin using CBLR for the first quarter of 2020. Management believes, as of December 31, 2021, that the Bank met all capital adequacy requirements to which it was subject.

The Bank's actual capital amounts and ratios as of December 31, 2021 and 2020, are presented below:

|                                    | Actual    |        | Minimum Required to be Well-Capitalized (1) |       |
|------------------------------------|-----------|--------|---|-------|
|                                    | Amount    | Ratio  | Amount                                      | Ratio |
| (Dollars in thousands)             |           |        |   |       |
| <b>As of December 31, 2021</b>     |           |        |   |       |
| Tier 1 capital (to Average Assets) | \$ 44,262 | 16.11% | \$ 23,349                                   | >8.5% |
| <b>As of December 31, 2020</b>     |           |        |   |       |
| Tier 1 capital (to Average Assets) | \$ 44,256 | 18.41% | \$ 21,636                                   | >8%   |

(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 Company to return to the risk-based capital ratio thresholds previously utilized under the fully phased-in Basel III Capital Rules to determine capital adequacy.

The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that the Bank may pay without prior approval of regulatory agencies. Under these regulations, the amount of dividends that the Bank may pay in any calendar year is limited to the current year's profits, combined with the retained profit of the previous two years, subject to the capital requirements described above which include a requirement that the Bank maintain a capital conservation buffer of 2.5% on all risk-based capital requirements in order to avoid additional limitations on capital distributions.

**Note 11: Benefit Plans**

During 2021, the Bank made final payouts for the Directors' Retirement Fund and Equity Value Plan. Both plans were fully accrued for prior to 2020.

The Bank sponsors a noncontributory Profit-Sharing Plan covering all employees who have worked more than 1,000 hours during the plan year. Profit sharing expense for the years ended 2021 and 2020 were \$0.

[Table of Contents](#)

Management implemented a 401(k)-benefit plan during 2007. Employee contributions are matched up to the first 6% of compensation contributed by the employee. Employer match contributions totaled \$156,000 for 2021 and \$163,000 for 2020.

**Note 12: 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 December 31, 2021 and 2020, unused lines of credit and outstanding commitments to originate loans were as follows:

|                                | 2021                   | 2020     |
|--------------------------------|------------------------|----------|
|                                | (Dollars in thousands) |          |
| Unused line of credit          | \$ 4,001               | \$ 4,372 |
| Commitments to originate loans | 219                    | 784      |
| Total commitments              | \$ 4,220               | \$ 5,156 |

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 13: 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:

|                |   |
|----------------|---|
| <b>Level 1</b> | Quoted prices in active markets for identical assets or liabilities   |
| <b>Level 2</b> | 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 |
| <b>Level 3</b> | 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 December 31, 2021 and 2020.

Available-for-Sale Securities (Recurring)

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

Impaired Loans (Nonrecurring)

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

The following table presents the Bank's assets that are measured at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2021 and 2020:

|   | Fair Value        | Fair Value Measurements Using |                |             |
|---|-------------------|-------------------------------|----------------|-------------|
|   |                   | Level 1                       | Level 2        | Level 3     |
| (Dollars in thousands)                  |                   |                               |                |             |
| <b>December 31, 2021</b>                |                   |                               |                |             |
| Securities Available-for-sale           |                   |                               |                |             |
| U.S. government agency obligations      | \$ 10,053         | —                             | 10,053         | \$ —        |
| Municipal obligations                   | 18,000            | —                             | 18,000         | —           |
| Mortgage-backed residential obligations | 42,148            | —                             | 42,148         | —           |
| Collateralized mortgage obligations     | 30,749            | —                             | 30,749         | —           |
| <b>Total</b>                            | <b>\$ 100,950</b> | <b>—</b>                      | <b>100,950</b> | <b>\$ —</b> |
| <b>December 31, 2020</b>                |                   |                               |                |             |
| Securities Available-for-sale           |                   |                               |                |             |
| U.S. government agency obligations      | \$ 7,147          | —                             | 7,147          | \$ —        |
| Municipal obligations                   | 10,980            | —                             | 10,980         | —           |
| Mortgage-backed residential obligations | 43,094            | —                             | 43,094         | —           |
| Collateralized mortgage obligations     | 20,399            | —                             | 20,399         | —           |
| <b>Total</b>                            | <b>\$ 81,620</b>  | <b>—</b>                      | <b>81,620</b>  | <b>\$ —</b> |



[Table of Contents](#)

The Bank may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis and the valuation techniques used to measure nonrecurring Level 3 fair value measurements as of December 31, 2021 and 2020, were as follows:

| <b>Fair Value Measurements Using</b> |                   |                |                |                |                    |
|--------------------------------------|-------------------|----------------|----------------|----------------|--------------------|
|                                      | <b>Fair Value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Gain/(Loss)</b> |
| <b>(Dollars in thousands)</b>        |                   |                |                |                |                    |
| <b>December 31, 2021</b>             |                   |                |                |                |                    |
| Impaired loans                       | \$ 663            | —              | —              | 663            | \$ —               |
| <b>December 31, 2020</b>             |                   |                |                |                |                    |
| Impaired loans                       | \$ 925            | —              | —              | 925            | \$ —               |

The numerical range of unobservable inputs for the valuation assumptions used in calculating the amounts disclosed above is not meaningful to this presentation.

**Note 14: Fair Value of Financial Instruments**

Financial instruments are classified within the fair value hierarchy using the methodologies described in Note 13 – Fair Value Measurements. The following disclosures include financial instruments that are not carried at fair value on the Consolidated Balance Sheets. 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, interest-bearing deposits, FHLB Advances and accrued interest receivable and payable.

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

|                               | <b>Carrying<br/>Amount</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Estimated<br/>Fair Value</b> |
|-------------------------------|----------------------------|----------------|----------------|----------------|---------------------------------|
| <b>(Dollars in thousands)</b> |                            |                |                |                |                                 |
| <b>December 31, 2021</b>      |                            |                |                |                |                                 |
| Financial assets:             |                            |                |                |                |                                 |
| Loans, net                    | \$ 96,534                  | \$ —           | \$ 96,391      | \$ —           | \$ 96,391                       |
| Loans held for sale           | 104                        | —              | 112            | —              | 112                             |
| Financial liabilities:        |                            |                |                |                |                                 |
| Interest-bearing deposits     | \$ 186,531                 | \$ —           | \$ 181,564     | \$ —           | \$ 181,564                      |
| <b>December 31, 2020</b>      |                            |                |                |                |                                 |
| Financial assets:             |                            |                |                |                |                                 |
| Loans, net                    | \$ 98,455                  | \$ —           | \$ 102,034     | \$ —           | \$ 102,034                      |
| Loans held for sale           | 1,972                      | —              | 1,972          | —              | 1,972                           |
| Financial liabilities:        |                            |                |                |                |                                 |
| Interest-bearing deposits     | \$ 176,670                 | \$ —           | \$ 177,280     | \$ —           | \$ 177,280                      |

**Note 15: Condensed Parent Only Financial Information**

The Parent Company's condensed balance sheet and related condensed statements of operations and cash flows are as follows.

**NORTH SHORE MHC  
Condensed Balance Sheets**

|                                       | Year ended December 31, |           |
|---------------------------------------|-------------------------|-----------|
|                                       | 2021                    | 2020      |
|                                       | (Dollars in thousands)  |           |
| <b>Assets:</b>                        |                         |           |
| Cash                                  | \$ 230                  | \$ 993    |
| Investment in subsidiary              | 44,200                  | 45,687    |
| Other assets                          | 753                     | 48        |
| Total assets                          | \$ 45,183               | \$ 46,728 |
| <b>Liabilities:</b>                   |                         |           |
| Accrued expense and other liabilities | \$ —                    | \$ 3      |
| Total liabilities                     | —                       | 3         |
| <b>Members' equity:</b>               |                         |           |
| Members' equity                       | 45,183                  | 46,725    |
| Total members' equity                 | 45,183                  | 46,725    |
| Total liabilities and members' equity | \$ 45,183               | \$ 46,728 |

**NORTH SHORE MHC  
Condensed Statements of Operations**

|   | Year ended December 31, |                 |
|---|-------------------------|-----------------|
|   | 2021                    | 2020            |
|   | (Dollars in thousands)  |                 |
| <b>Income:</b>  |                         |                 |
| Interest income   | \$ 1                    | \$ 1            |
| Total income  | 1                       | 1               |
| <b>Expense:</b>   |                         |                 |
| Noninterest expense   | \$ 19                   | \$ 229          |
| Total expense   | 19                      | 229             |
| Losses before income tax benefit and equity in undistributed earnings of subsidiary | \$ (18)                 | \$ (228)        |
| Income tax benefit  | 38                      | (56)            |
| Losses before equity in undistributed earnings of subsidiary                        | \$ (56)                 | \$ (172)        |
| Equity in undistributed earnings of subsidiary                                      | 1                       | 60              |
| <b>Net (losses) income</b>  | <b>\$ (55)</b>          | <b>\$ (112)</b> |

**NORTH SHORE MHC  
Condensed Statements of Cash Flows**

|  | Year ended December 31, |               |
|--|-------------------------|---------------|
|  | 2021                    | 2020          |
|  | (Dollars in thousands)  |               |
| <b>Cash flows from operating activities:</b>   |                         |               |
| Net (losses) income  | \$ (55)                 | \$ (112)      |
| Adjustments to reconcile net (losses) income to net cash used in operating activities: |                         |               |
| Decrease (increase) in other assets  | (704)                   | 80            |
| Increase (decrease) in accrued expenses and other liabilities                          | (3)                     | 3             |
| Equity in undistributed earnings of subsidiary   | (1)                     | (60)          |
| Net cash used in operating activities  | (763)                   | (89)          |
| <b>Cash flows from financing activities:</b>   |                         |               |
| Dividends received from subsidiary   | —                       | 950           |
| Net cash provided by financing activities  | —                       | 950           |
| Net change in cash   | (763)                   | 861           |
| Cash at beginning of period  | 993                     | 132           |
| <b>Cash at end of period</b>   | <b>\$ 230</b>           | <b>\$ 993</b> |

**Note 16: Changes in Accounting Principles**

Accounting for Financial Instruments – Credit Losses

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

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

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

**Note 17: Subsequent Events**

Management evaluated subsequent events through March 22, 2022, the date the financial statements were issued. Except for the completion of the Plan of Conversion as discussed in Note 1, management does not believe there were any material subsequent events during this period that would have required further recognition or disclosure in the consolidated financial statements included in this report.

**SIGNATURES**

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**NSTS BANCORP, INC.**

Dated: March 22, 2022

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

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints each of Stephen G. Lear and Carissa H. Schoolcraft, with full power to act without the other, his or her trust and lawful attorney-in-fact and agency, with full and several powers of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully as to all intents and purposes as each of the undersigned might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

| <u>Signatures</u>   | <u>Title</u>  | <u>Date</u>    |
|---|---|----------------|
| <u>/s/ Stephen G. Lear</u><br>Stephen G. Lear               | Chairman of the Board, President and Chief Executive Officer<br>(Principal Executive Officer) | March 22, 2022 |
| <u>/s/ Carissa H. Schoolcraft</u><br>Carissa H. Schoolcraft | Chief Financial Officer<br>(Principal Financial and Accounting Officer)                       | March 22, 2022 |
| <u>/s/ Apolonio Arenas</u><br>Apolonio Arenas               | Director  | March 22, 2022 |
| <u>/s/ Thaddeus M. Bond, Jr.</u><br>Thaddeus M. Bond, Jr.   | Director  | March 22, 2022 |
| <u>/s/ Kevin M. Dolan</u><br>Kevin M. Dolan                 | Director  | March 22, 2022 |
| <u>/s/ Thomas M. Ivantic</u><br>Thomas M. Ivantic           | Director  | March 22, 2022 |
| <u>/s/ Thomas J. Kneesel</u><br>Thomas J. Kneesel           | Director  | March 22, 2022 |
| <u>/s/ Rodney J. True</u><br>Rodney J. True                 | Director  | March 22, 2022 |

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12  
OF THE SECURITIES EXCHANGE ACT OF 1934**

Our common stock is the only class of our securities that is registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The following description of our common stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Certificate of Incorporation (the "Certificate of Incorporation") and our Bylaws (the "Bylaws"), each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part.

**General**

NSTS Bancorp, Inc. is authorized to issue 10,000,000 shares of common stock, par value of \$0.01 per share, and 1,000,000 shares of preferred stock, par value \$0.01 per share. There are 5,397,959 shares of our common stock issued and outstanding. NSTS Bancorp, Inc. has not issued shares of preferred stock. Each share of common stock has the same relative rights as, and is identical in all respects to, each other share of common stock. Upon payment of the subscription price for the common stock, in accordance with the plan of conversion, all of the shares of common stock are duly authorized, fully paid and nonassessable.

The shares of common stock represent non-withdrawable capital, are not an account of an insurable type, and are not insured by the Federal Deposit Insurance Corporation or any other government agency.

**Common Stock**

**Dividends.** NSTS Bancorp, Inc. may pay dividends on its common stock if, after giving effect to such dividends, it would be able to pay its debts in the usual course of business and its total assets would exceed the sum of its total liabilities plus the amount needed to satisfy the preferential rights upon dissolution of stockholders whose preferential rights on dissolution are superior to those receiving the dividends. However, even if NSTS Bancorp, Inc.'s assets are less than the amount necessary to satisfy the requirement set forth above, NSTS Bancorp, Inc. may pay dividends from: its net earnings for the fiscal year in which the distribution is made; and its net earnings for the preceding fiscal year. The payment of dividends by NSTS Bancorp, Inc. is also subject to limitations that are imposed by applicable regulation, including restrictions on payments of dividends that would reduce NSTS Bancorp, Inc.'s net assets below the then-adjusted balance of its liquidation account. The holders of common stock of NSTS Bancorp, Inc. are entitled to receive and share equally in dividends as may be declared by our board of directors out of funds legally available therefor. If NSTS Bancorp, Inc. issues shares of preferred stock, the holders thereof may have priority over the holders of the common stock with respect to dividends.

**Voting Rights.** The holders of common stock of NSTS Bancorp, Inc. have exclusive voting rights in NSTS Bancorp, Inc. They elect NSTS Bancorp, Inc.'s board of directors and act on other matters as are required to be presented to them under Delaware law or as are otherwise presented to them by the board of directors. Each holder of common stock is entitled to one vote per share and do not have any right to cumulate votes in the election of directors. Any person who beneficially owns more than 10% of the then-outstanding shares of NSTS Bancorp, Inc.'s common stock, is not entitled or permitted to vote any shares of common stock held in excess of the 10% limit. If NSTS Bancorp, Inc. issues shares of preferred stock, holders of the preferred stock may also possess voting rights. Certain matters require the approval of 75% of our outstanding voting stock as described in our Certificate of Incorporation.

As a federally-chartered stock savings association, corporate powers and control of North Shore Trust and Savings are vested in its board of directors, who elect the officers of North Shore Trust and Savings and who fill any vacancies on the board of directors. Voting rights of North Shore Trust and Savings are vested exclusively in the owners of the shares of capital stock of North Shore Trust and Savings, which is NSTS Bancorp, Inc., and voted at the direction of NSTS Bancorp, Inc.'s board of directors. Consequently, the holders of the common stock of NSTS Bancorp, Inc. do not have direct control of North Shore Trust and Savings.

---

**Liquidation.** In the event of any liquidation, dissolution or winding up of North Shore Trust and Savings, NSTS Bancorp, Inc., as the holder of 100% of North Shore Trust and Savings' capital stock, would be entitled to receive all assets of North Shore Trust and Savings available for distribution, after payment or provision for payment of all debts and liabilities of North Shore Trust and Savings, including all deposit accounts and accrued interest thereon, and after distribution of the balance in the liquidation account to eligible account holders and supplemental eligible account holders. In the event of liquidation, dissolution or winding up of NSTS Bancorp, Inc., the holders of its common stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities (including payments with respect to its liquidation account to all eligible account holders and supplemental eligible account holders), all of the assets of NSTS Bancorp, Inc. available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of a liquidation or dissolution.

**Preemptive Rights.** Holders of the common stock of NSTS Bancorp, Inc. are not entitled to preemptive rights with respect to any shares that may be issued. The common stock is not subject to redemption.

#### **Preferred Stock**

None of the shares of NSTS Bancorp, Inc.'s authorized preferred stock are issued. Preferred stock may be issued with preferences and designations as our board of directors may from time to time determine. Our board of directors may, without stockholder approval, issue shares of preferred stock with voting, dividend, liquidation and conversion rights that could dilute the voting strength of the holders of common stock and may assist management in impeding an unfriendly takeover or attempted change in control.

#### **Listing**

Our common stock is listed on the Nasdaq Capital Market under the symbol "NSTS".

#### **Transfer Agent**

The transfer agent and registrar for our common stock is Pacific Stock Transfer.

## EMPLOYMENT AGREEMENT

This Employment Agreement (“**Agreement**”) is made and entered into as of the 18th day of January, 2022, by and among NSTS Bancorp, Inc., a Delaware corporation and sole shareholder of the Bank (“**NSTS**”), North Shore Trust and Savings, a federally chartered stock savings association (“**Bank**”) (NSTS and the Bank are sometimes referred to collectively as the “**Employer**”), and Stephen G. Lear (“**Executive**”), and shall become effective and binding as of the date set forth above.

WITNESSETH THAT:

**WHEREAS**, Executive is currently employed as the Chairman, Chief Executive Officer and President of NSTS and as Chairman and Chief Executive Officer of the Bank; and

**WHEREAS**, each of NSTS and the Bank desires to continue to employ the Executive in such executive capacity in the conduct of its business, and the Executive desires to be so employed on the terms contained herein.

**NOW, THEREFORE**, in consideration of the mutual promises and covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, hereto agree as follows:

1. Employment and Employment Period. The Employer hereby employs the Executive and the Executive agrees to be employed by the Employer, on the terms and conditions set forth in this Agreement, for a period commencing on the Effective Time and ending on the third anniversary of the Effective Time, subject to earlier termination or extension as provided herein (the “**Term**”). On the first anniversary date of the Effective Time, and on each succeeding anniversary date (each, an “**Anniversary Date**”), the Term shall extend automatically for one additional year beyond the initial Term or the extended Term, as the case may be, so that the Term shall continue to be three (3) years from the date of such extension, unless either the Employer or the Executive by written notice to the other given at least ninety (90) days prior to such Anniversary Date notifies the other of its intent not to extend the same. In the event that notice not to extend is given by either the Employer or the Executive, this Agreement shall terminate as of the last day of the initial Term or such extended Term. Reference herein to the Term of this Agreement shall refer to both such initial Term and any extended Terms.
  2. Capacity and Extent of Service.
    - (a) During his employment hereunder, the Executive shall serve as the Chairman, Chief Executive Officer and President of NSTS and as Chairman and Chief Executive Officer of the Bank. In addition, during the Term, the Executive shall be appointed to serve as a member of the Board of Directors of the Bank and shall be nominated to stand for election as a director of NSTS.
    - (b) The Executive shall be employed on a full-time basis as provided above and shall be assigned only such duties and tasks as are commensurate with those customarily held by a person in such positions. It is the intention of the Employer that the Executive shall be subject to the direction and supervision of the Board of the Employer.
    - (c) During his employment hereunder, the Executive shall devote his full business time and his best efforts, business judgment, skill and knowledge to the performance of his duties and responsibilities hereunder. Except as otherwise permitted in Section 2(d), the Executive shall not engage in any other business activity during the Term of this Agreement, other than an activity approved in writing by the Board of the Employer. For the avoidance of doubt, the Executive may engage in service for civic, charitable or religious purposes or services in connection with any trade association (together “**Community Activities**”) during business hours without the need for notice to the Board of the Employer; provided that such service does not involve a material time commitment. The Executive shall disclose any such Community Activities if so requested by the Board of the Employer and shall cease any such Community Activities as soon as is practicable if directed in writing by the Board, provided that the Board determines in good faith that continuation of such Community Activity is contrary to the legitimate business interests of the Employer.
-

- (d) With the prior written approval of the Board of the Employer, the Executive may serve on boards of both for-profit and not-for-profit entities or engage in Community Activities that involve a material time commitment. Notwithstanding the foregoing, Executive may continue to serve on any board of directors on which he was serving as of the date this Agreement was entered. A list of any such boards of directors has been supplied to the Board.

3. Compensation and Benefits.

- (a) Base Compensation. As compensation for the services to be performed by the Executive during his employment hereunder, the Bank shall pay to the Executive, in regular periodic installments, a base salary per year equal to Executive's annual base salary in effect as of the date hereof, which salary may be increased, but not decreased, in the sole discretion of the Board of the Employer from time to time (the "**Base Salary**").
- (b) Short-Term and Long-Term Incentive Compensation. (A) In addition to the foregoing Base Salary, for each fiscal year during his employment hereunder, the Executive shall be eligible to receive a cash bonus as may be determined by the Board of the Employer or pursuant to any short-term incentive compensation plan for senior executives of the Employer that may be adopted in the future by the Board in its discretion. Cash bonuses shall be paid as directed by the Board of the Employer. (B) The Executive shall also be eligible during his employment hereunder to participate in any long-term and/or equity-based incentive compensation plan or program that may be adopted by the Board for senior executives of the Employer, in accordance with the terms of such plans or programs, as may be amended from time to time by the Board in its discretion.
- (c) Employee Benefits. During his employment hereunder, the Executive shall be entitled to participate in all other retirement, welfare, and employee benefit programs and arrangements of the Employer as may be in effect from time to time to the extent the Executive is eligible for participation under the terms of such plans, programs, and arrangements.
- (d) Perquisites; Vacation. During his employment hereunder, the Executive shall be entitled to receive perquisites available to senior executives of the Employer in accordance with the Employer's policies as in effect from time to time, such perquisites to include reimbursement for monthly membership dues at a local country club mutually agreed upon between Bank and Executive, and business expenses as contemplated by Section 4 below that are incurred at such club, and may include an automobile allowance as determined by the Board and monthly cellular telephone costs as determined by the Board. In addition, Executive shall be entitled to thirty (30) days paid time off during each calendar year.



4. Business Expenses. The Employer shall reimburse the Executive for all reasonable travel and other business expenses incurred by him in the performance of his duties and responsibilities in accordance with the Employer's reimbursement policies, subject to such reasonable requirements with respect to substantiation and documentation as may be specified by the Employer or its auditors. Reimbursements of expenses and in-kind benefits subject to this Section 4 or Section 3(d) or otherwise provided to the Executive shall be subject to the following rules: (i) the amount of such expenses eligible for reimbursement or in-kind benefits provided in any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits provided in any other taxable year, except as otherwise allowed by Section 409A of the Code; (ii) any reimbursement shall be made on or before the last day of the calendar year following the calendar year in which the expenses to be reimbursed were incurred; and (iii) no right to reimbursement or in-kind benefits may be liquidated or exchanged for another benefit.
5. Termination. Notwithstanding the provisions of Section 1, the Executive's employment hereunder shall terminate under the following circumstances:
- (a) Death. In the event of the Executive's death during his employment under this Agreement, the Executive's employment shall terminate on the date of his death.
  - (b) Disability. In the event that the Executive becomes Disabled during his employment under this Agreement, the Executive's employment hereunder shall terminate. For purposes of this Agreement, "**Disability**" or "**Disabled**" means any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months and that renders the Executive unable to engage in any substantial gainful activity. If any question arises as to whether the Executive is Disabled, upon reasonable request therefor by the Board of the Employer, the Executive shall submit to reasonable examination by a physician for the purpose of determining the existence, nature and extent of any such disability. The Board of the Employer shall promptly provide the Executive with written notice of the results of any such determination of Disability and of any decision of the Board of the Employer that this Agreement shall terminate by reason thereof. Any termination of the Term under this Section 5(b) shall be effected without any adverse effect on the Executive's rights to receive benefits under any disability policy of the Employer, but shall not be treated as a termination without Cause.
  - (c) Termination by the Executive without Good Reason. Notwithstanding the provisions of Section 1, the Executive may resign from the Employer at any time prior to the expiration of the Term. If Executive resigns without Good Reason, there shall be no additional Base Salary or bonus payable to Executive after the date of termination.
  - (d) Termination by the Employer Without Cause. The Executive's employment under this Agreement may be terminated by the Employer without Cause upon thirty (30) days' prior written notice to the Executive. Compensation and benefits will be provided as set forth in Section 6 or Section 7, as applicable.

- (e) Termination by the Executive for Good Reason. The Executive may terminate his employment hereunder for Good Reason. For purposes of this Agreement, "Good Reason" shall mean that the Executive has complied with the "Good Reason Process" (hereinafter defined) following the occurrence of any of the following events:
- (i) Material adverse change by the Employer, not consented to by the Executive, in Executive's responsibilities, titles, powers, or duties at the Employer;
  - (ii) Failure by the Employer to appoint the Executive as a member of the Board of Directors of the Bank, or to nominate the Executive to stand for election to the Board of Directors of NSTS;
  - (iii) A material reduction in the Executive's Base Salary, as the same may be increased from time to time;
  - (iv) The involuntary relocation of the office at which the Executive is principally employed to a location more than twenty-five (25) miles of driving distance from Executive's principal office of employment as of the date this Agreement is entered; or
  - (v) Material breach by the Employer of this Agreement, which breach continues for more than ten (10) days following written notice given by the Executive to the Employer, such written notice to set forth in reasonable detail the nature of such breach.

"**Good Reason Process**" shall mean that (i) the Executive reasonably determines in good faith that a "Good Reason" condition has occurred; (ii) the Executive notifies the Employer in writing of the first occurrence of the Good Reason condition within thirty (30) days of the first occurrence of such condition; (iii) the Executive cooperates in good faith with the Employer's efforts, for a period not less than thirty (30) days following such notice (the "**Cure Period**"), to remedy the condition; (iv) notwithstanding such efforts, the Good Reason condition continues to exist; and (v) the Executive terminates his employment within ten (10) days after the end of the Cure Period. If the Employer cures the Good Reason condition during the Cure Period, Good Reason shall be deemed not to have occurred. Notwithstanding the foregoing, the Employer may elect to waive the Cure Period, in which case, the Executive's termination may occur within such 30-day Cure Period.

- (f) Termination by the Employer for Cause. At any time during the Term, the Employer may terminate the Executive's employment hereunder for Cause if at a meeting of the Board of the Employer called and held for such purpose (after reasonable notice to the Executive and an opportunity for him, together with counsel, to be heard before the Board, which notice shall specify in reasonable detail the basis for a proposal to terminate the Executive's employment for "**Cause**") a majority of the Board determines in good faith that the Executive is guilty of conduct that constitutes "Cause" as defined herein. Only the following shall constitute "Cause" for such termination:
- (i) Executive's personal dishonesty, incompetence, willful misconduct, or breach of fiduciary duty involving personal profit;
  - (ii) Executive's willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and-desist order from bank regulatory agencies;

- (iii) Executive's intentional failure to perform the duties assigned to him by the Board of the Employer; or
  - (iv) Executive's material breach of any provision of this Agreement.
- (g) Resignation from Board of the Employer. Upon Executive's termination of employment for any reason, the Executive shall submit to the Employer in writing his resignation as a member of Board of Directors of each of the Bank and NSTS.

6. Compensation Upon Termination.

- (a) Termination Generally. If the Executive's employment with the Employer is terminated by the Employer or the Executive for any reason, the Employer shall pay or provide to the Executive (or to his authorized representative or estate) (i) on or before the time required by law but in no event more than thirty (30) days after the Executive's date of termination, the sum of (A) any Base Salary earned through the date of termination, (B) unpaid expense reimbursements (subject to, and in accordance with, Section 4 of this Agreement), (C) any vacation pay to which the Executive is entitled on or before the time required by law but in no event more than thirty (30) days after the Executive's date of termination, and (D) any earned but unpaid incentive compensation for the year immediately preceding the year of termination; and (ii) any vested benefits the Executive may have under any employee benefit plan of the Employer through the date of termination, which vested benefits shall be paid and/or provided in accordance with the terms of such employee benefit plans (collectively, the "**Accrued Benefits**"). In addition, nothing herein shall affect the Executive's rights after termination of employment under COBRA (if any).
- (b) Termination by the Employer Without Cause or by the Executive For Good Reason. During the Term, if the Executive's employment is terminated by the Employer without Cause as provided in Section 5(d), or the Executive terminates his employment for Good Reason as provided in Section 5(e), the Employer shall pay to the Executive his Accrued Benefits and the benefit described in Section 6(a)(ii). In addition, subject to the last paragraph of this Section 6(b), the Employer shall pay to Executive an amount equal to the Base Salary he would have been entitled to receive had he continued employment for the remainder of the then in effect Term ("**Severance Amount**"). The Severance Amount shall be paid out in substantially equal installments in accordance with the Bank's payroll practice over the remainder of the Term ("**Severance Period**") commencing within sixty (60) days after the date of termination, subject to the receipt of the signed Release Agreement (described below) within such sixty (60) day period; and further subject to the delay specified in Section 8(a) hereof in the event Executive is a specified employee (as defined therein); provided, however, that if the 60-day period begins in one calendar year and ends in a second calendar year, the payment of the Severance Amount shall commence in the second calendar year. Solely for purposes of Section 409A of the Code, each installment payment shall be considered a separate payment.

The provision of the Severance Amount shall be conditioned on the Executive signing a Release Agreement substantially in the form of Exhibit A ("**Release Agreement**") within the time period set forth therein and not revoking the Release Agreement within the seven (7) day revocation period set forth in the Release Agreement; provided that the Employer tenders the Release Agreement to the Executive no later than seven (7) days after the date of termination of employment. Notwithstanding the foregoing, the Release Agreement may be modified to the extent necessary to comply with applicable law from and after the date of this Agreement.

7. Change in Control.

- (a) The provisions of this Section 7 set forth certain terms of an agreement reached between the Executive and the Employer regarding the Executive's rights and obligations upon the occurrence of a Change in Control of the Employer. These provisions are intended to assure and encourage in advance the Executive's continued attention and dedication to his assigned duties and his objectivity during the pendency and after the occurrence of any such event. These provisions shall apply in lieu of, and expressly supersede, the provisions of Section 6(b) regarding severance pay upon a termination of employment, if such termination of employment occurs within twenty-four (24) months after the occurrence of the first event constituting a Change in Control. These provisions shall terminate and be of no further force or effect beginning twenty-four (24) months after the occurrence of a Change in Control.
- (b) Termination following a Change in Control.
- (i) During the Term, if within twenty-four (24) months after a Change in Control, the Executive's employment is terminated by the Employer without Cause as provided in Section 5(d) or the Executive terminates his employment for Good Reason as provided in Section 5(e), the Employer shall pay the Executive his Accrued Benefits. In addition, the Employer shall pay to the Executive a severance payment in an amount equal to two and one-half (2.5) times the sum of (A) the Executive's current Base Salary, plus (B) the average annual bonus earned by the Executive pursuant to Section 3(b)(A) with respect to the applicable Employer's three (3) most recent fiscal years ending before or simultaneously with the Change in Control. The severance payment shall be paid out in a lump sum within sixty (60) days of termination of employment, subject to the receipt of the signed Release Agreement (described in Section 7(c) below); and further subject to the delay specified in Section 8(a) hereof in the event Executive is a specified employee (as defined therein); provided, however, that if the sixty (60) day period begins in one calendar year and ends in a second calendar year, the payment of the severance amount shall be made in the second calendar year.
- (ii) Anything in this Agreement to the contrary notwithstanding, if (A) a Change of Control occurs, (B) the Executive's employment with Company is terminated by Company without Cause or if Executive terminates his employment for Good Reason, in either case within three (3) months prior to the date on which the Change of Control occurs, and (C) it is reasonably demonstrated by Executive that such termination of employment or event constituting Good Reason was (x) at the request of a third party who had taken steps reasonably calculated to effect a Change of Control or (y) otherwise arose in connection with or in anticipation of a Change of Control, then for all purposes of this Agreement such Change of Control shall be deemed to have occurred during the Term and the termination date shall be deemed to have occurred after the Change of Control, so that Executive is entitled to the severance amount provided by this Section 7(b), reduced by any amounts already paid to the Executive under Section 6(b). Any additional amounts due Executive as a result of the application of this paragraph to a termination prior to a Change of Control shall be paid to Executive in a lump sum payment within sixty (60) days of Executive becoming entitled to such payment, subject to the receipt of the signed Release Agreement (described in Section 7(c) below) within such sixty (60) day period; and further subject to the delay specified in Section 8(a) hereof in the event Executive is a specified employee (as defined therein); provided, however, that if the sixty (60) day period begins in one calendar year and ends in a second calendar year, the payment of the severance amount shall be made in the second calendar year.

- (c) **Release Requirement.** The provision of the severance amount provided under this Section 7 shall be conditioned on the Executive signing a Release Agreement in the form of Exhibit A (the “**Release Agreement**”) within the time period set forth therein and not revoking the Release Agreement within the seven (7) day revocation period set forth in the Release Agreement; provided that the Employer tender the Release Agreement to the Executive no later than seven (7) days after the date of termination of employment. Notwithstanding the foregoing, the Release Agreement may be modified to the extent necessary based on changes in applicable law from and after the date of this Agreement.
- (d) **Payment Limitation.**
- (i) Anything in this Agreement to the contrary notwithstanding, in the event that the amount of any compensation, payment or distribution by the Employer to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, calculated in a manner consistent with Section 280G of the Code and the applicable regulations thereunder (the “**Severance Payments**”), would be subject to the excise tax imposed by Section 4999 of the Code, the following provisions shall apply:
- (A) Executive shall be entitled to the greater of the amount to which he would be entitled by this Agreement (and other benefit plans and arrangements that provide a payment that is treated as a “**Contingent Payment**”) under either item (i) or (ii) below:
- (i) The “net” after-tax benefit to which Executive would be entitled after taking into consideration any and all taxes that Executive would owe on such Contingent Payments, including any Federal, state and local income and employment taxes, as well as any excise tax, penalties or interest; and
- (ii) The “net” after-tax benefit to which Executive would be entitled after reducing the Contingent Payments so that such payments do not exceed the Threshold Amount, after taking into consideration any all taxes that Executive would owe on such reduced Contingent Payments, including any Federal, state and local income and employment taxes.
- (iii) For the purposes of this Section 7, “**Threshold Amount**” shall mean three times the Executive’s “base amount” within the meaning of Section 280G(b)(3) of the Code and the regulations promulgated thereunder less one dollar (\$1.00); and “**Excise Tax**” shall mean the excise tax imposed by Section 4999 of the Code, and any interest or penalties incurred by the Executive with respect to such excise tax. The term “**Contingent Payment**” shall mean a payment in the nature of compensation that is contingent on a change in (i) the ownership or effective control of the Employer or (ii) a change in the ownership of a substantial portion of the assets of the Employer, however, a Contingent Payment shall not include any payment under a qualified plan listed in Code Section 280G(b)(6).

(iv) The determination as to which of the alternative provisions of Section 7(d)(i)(A) shall apply to the Executive shall be made by a nationally recognized accounting firm selected by the Employer (the “**Accounting Firm**”), which shall provide detailed supporting calculations both to the Employer and the Executive within fifteen (15) business days of the date of termination, if applicable, or at such earlier time as is reasonably requested by the Employer or the Executive. For purposes of determining which of the alternative provisions of Section 7(d)(i)(A) shall apply, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation applicable to individuals for the calendar year in which the determination is to be made, and state and local income taxes at the highest marginal rates of individual taxation in the state and locality of the Executive’s residence on the date of termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. Any determination by the Accounting Firm shall be binding upon the Employer and the Executive.

- (e) Change in Control. For purposes of this Agreement, the term “**Change in Control**” shall mean the consummation by the Employer, in a single transaction or series of related transactions, of any of the following:
- (i) the sale of all or a substantial portion of the assets of NSTS or the Bank to any person, group or entity;
  - (ii) the merger, consolidation or other business combination of NSTS or the Bank with another entity, in which NSTS or the Bank, as applicable, is not the survivor of such merger, consolidation or other business combination or a majority of the board of directors or other governing body of the entity surviving or resulting from such merger, consolidation or other business combination is not composed of individuals who were serving on the Board of Directors of NSTS or the Bank, as the case may be, immediately prior to the consummation of such merger, consolidation or other business combination; or
  - (iii) a change in control of NSTS or the Bank within the meaning of the Home Owners’ Loan Act and the applicable rules and regulations promulgated thereunder by the Board of Governors of the Federal Reserve System (the “**Federal Reserve**”).

8. Section 409A.

- (a) Anything in this Agreement to the contrary notwithstanding, if at the time of the Executive’s separation from service within the meaning of Section 409A of the Code, the Employer determines that the Executive is a “specified employee” within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that the Executive becomes entitled to under this Agreement on account of the Executive’s separation from service would be considered deferred compensation subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment shall not be payable and such benefit shall not be provided until the date that is the earlier of (A) six months and one day after the Executive’s separation from service, or (B) the Executive’s death. If any such delayed cash payment is otherwise payable on an installment basis, the first payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision, and the balance of the installments shall be payable in accordance with their original schedule. Any such delayed cash payment shall earn interest at an annual rate equal to the applicable federal short-term rate published by the Internal Revenue Service for the month in which the date of separation from service occurs, from such date of separation from service until the payment.

- (b) To the extent that any payment or benefit described in this Agreement constitutes “non-qualified deferred compensation” under Section 409A of the Code, and to the extent that such payment or benefit is payable upon the Executive’s termination of employment, then such payments or benefits shall be payable only upon the Executive’s “separation from service.” The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h).
- (c) The parties intend that this Agreement will be administered in accordance with Section 409A of the Code. To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A of the Code, the provision shall be read in such a manner so that all payments hereunder comply with Section 409A of the Code. The parties agree that this Agreement may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Section 409A of the Code and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party. No action or failure by the Employer in good faith to act, pursuant to this Section 8(c), shall subject the Employer to any claim, liability, or expense, and the Employer shall not have any obligation to indemnify or otherwise protect Executive from the obligation to pay any taxes pursuant to Section 409A of the Code.

9. Non-Solicitation and Confidential Information.

- (a) Non-Solicitation. In consideration of the Employer’s agreement to continue to employ the Executive and the Executive’s eligibility to receive and/or receipt of future short-term and long-term incentive compensation from the Employer, the Executive agrees that, during the term of his employment under this Agreement and the twelve (12) months following the date of termination of his employment hereunder, he shall not, directly or indirectly (i) hire or attempt to hire any employee of the Employer, assist in such hiring by any other person, or encourage any such employee to terminate his or her relationship with the Employer, or (ii) solicit any customer of the Employer or its subsidiaries for the purpose of providing to the customer services or products of any kind that are offered or provided by the Bank, divert or attempt to divert any business from the Employer or its subsidiaries, or induce, attempt to induce, or assist others in inducing or attempting to induce any agent, customer or supplier of the Employer or any other person or entity associated or doing business with the Employer (or proposing to become associated or to do business with the Employer) to terminate such person’s or entity’s relationship with the Employer (or to refrain from becoming associated with or doing business with the Employer) or in any other manner to interfere with the relationship between the Employer and any such person or entity. The Executive understands that the restrictions set forth in this Section 9(a) and the following Section 9(b) are intended to protect the Employer’s interests in its Confidential Information and established employee, customer and supplier relationships and goodwill, and the Executive agrees that such restrictions are reasonable and appropriate for this purpose. For the avoidance of doubt, the Executive’s involvement in general advertising or general personnel recruiting efforts that are not targeted at customers or employees of the Employer shall not be considered to violate this Section 9(a). For purposes of this provision, the term “customer” means any business, entity or person which is or was a customer of the Bank at any time during the period of Executive’s employment and with respect to which the Executive had contact or supervisory responsibility or about whom Executive had access to Confidential Information.

- (b) Confidential Information. Except in furtherance of Executive's duties for the Bank, the Executive shall not at any time divulge, use, furnish, disclose or make accessible to anyone, other than to an employee or director of the Employer with a reasonable need to know, any Confidential Information. As used herein, "**Confidential Information**" shall include information relating to the Employer's business which has not been made generally available to the public or has been identified to the Executive as confidential, either orally or in writing, including, but not limited to: confidential or secret data, business relationships, business plans or strategies, marketing plans, contract provisions, actual or prospective customers, services, and procedures or techniques of the Employer; provided, however, that nothing in this Section 9 shall prevent the disclosure by the Executive of any such information which at any time comes into the public domain other than as a result of the violation of the terms of this Section 9 by the Executive or which is otherwise lawfully acquired by the Executive or which the Executive is ordered by a governmental body of competent jurisdiction to disclose. In addition, notwithstanding anything to the contrary herein, the Executive understands that nothing contained in this Agreement limits his ability to file a charge or complaint with the Equal Employment Opportunity Commission, the Securities and Exchange Commission, the Office of the Comptroller of the Currency (the "**OCC**"), the Federal Reserve, or any other federal, state, or local government agency or commission having jurisdiction over the Employer ("**Government Agencies**"). The Executive further understands that this Agreement does not limit his ability to communicate with any Government Agency or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Employer. This Agreement does not limit the Executive's right to receive an award for information provided to any Government Agencies.
- (c) Documents, Records, etc. All documents, records, data, apparatus, equipment and other physical property, whether or not pertaining to Confidential Information, which are furnished to the Executive by the Employer or are produced by the Executive in connection with the Executive's employment will be and remain the sole property of the Employer. The Executive will return to the Employer all such materials and property as and when requested by the Employer. In any event, the Executive will return all such materials and property immediately upon termination of the Executive's employment for any reason. The Executive will not retain any such material or property or any copies thereof after such termination,
- (d) Third-Party Agreements and Rights. The Executive hereby confirms that the Executive is not bound by the terms of any agreement with any previous employer or other party which restricts in any way the Executive's use or disclosure of information or the Executive's engagement in any business. The Executive represents to the Employer that the Executive's execution of this Agreement, the Executive's employment with the Employer and the performance of the Executive's proposed duties for the Employer will not violate any obligations the Executive may have to any such previous employer or other party. In the Executive's work for the Employer, the Executive will not disclose or make use of any information in violation of any agreements with or rights of any such previous employer or other party, and the Executive will not bring to the premises of the Employer any copies or other tangible embodiments of non-public information belonging to or obtained from any such previous employment or other party.



- (e) Litigation and Regulatory Cooperation. During and after the Executive's employment with the Employer, the Executive shall cooperate fully with the Employer in the defense or prosecution of any claims or any actions now in existence or that may be brought in the future against or on behalf of the Employer that relate to events or occurrences that transpired while the Executive was employed by the Employer. The Executive's full cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Employer at mutually convenient times. During and after the Executive's employment, the Executive also shall cooperate fully with the Employer in connection with any investigation or review by any federal, state or local regulatory authority as such investigation or review relates to events or occurrences that transpired while the Executive was employed by the Employer. The Employer shall reimburse the Executive for any reasonable out-of-pocket expenses incurred in connection with the Executive's performance of his obligations pursuant to this Section 9(e). Unless the Executive is then employed or the Employer is paying the Severance Amount, the Employer shall pay the Executive for any services pursuant to this Section 9(e) at the hourly rate of Executive's final annual Base Salary divided by 2,080; provided that no payment obligation shall apply to services that could be compelled pursuant to a subpoena.
- (f) Injunction. The Executive agrees that it would be difficult to measure any damages caused to the Employer that might result from any breach by the Executive of the promises set forth in this Section 9, and that in any event money damages would be an inadequate remedy for any such breach. Accordingly, the Executive agrees that if the Executive breaches or proposes to breach, any portion of this Section 9, the Employer shall be entitled, in addition to all other remedies that it may have, to seek an injunction or other appropriate equitable relief to restrain any such breach without showing or proving any actual damages to the Employer.
10. Withholding. All payments made by the Employer under this Agreement shall be net of any tax or other amounts required to be withheld by the Employer under applicable law.
11. Indemnification. The Employer agrees to indemnify the Executive for all costs, charges and expenses (including reasonable attorneys' fees), and shall provide for the advancement of expenses incurred or sustained in connection with any action, suit or proceeding to which the Executive may be made a party by reason of the Executive's being or having been a director, officer or employee of any such entities or their affiliates, all to the maximum extent permitted under the applicable laws of the United States, and applicable banking rules and regulations adopted by the OCC and the Federal Reserve, as applicable. The provisions of this Section 11 shall survive expiration or termination of this Agreement for any reason whatsoever. The Executive shall be entitled to coverage under such directors and officers liability insurance policies maintained from time to time by the Employer for the benefit of its directors and officers.
12. Notices. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by registered or certified mail, postage paid, to the Executive at the last address the Executive has filed in writing with the Employer or, in the case of the Employer, at its main office, attention of the Chairman of the Compensation Committee of the Board of the Directors.

13. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to its subject matter and may not be changed except by a writing duly executed and delivered by the Employer and the Executive in the same manner as this Agreement.
14. Binding Effect, Non-assignability. This Agreement shall be binding upon and inure to the benefit of the Employer and its successors. Neither this Agreement nor any rights arising hereunder may be assigned or pledged by the Executive during his lifetime. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.
15. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Executive and by a duly authorized representative of the Employer.
16. Enforceability. If any portion or provision of this Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.
17. Forfeiture of Payments. The Executive agrees that the receipt of severance compensation under Section 6(b) or Section 7 is conditioned upon the Executive's compliance in all material respects with the covenants set forth in Section 9. The foregoing shall be in addition to any other remedies or rights the Employer may have at law or in equity as a result of the Executive's failure to observe such provisions.
18. Applicable Law. This Agreement shall be construed and enforced in all respects in accordance with the laws of the State of Illinois, without regard to its principles of conflicts of laws, and in accordance with and subject to any applicable federal laws to which the Employer may be subject. In addition to the foregoing:
  - (a) In no event shall the Employer be obligated to make any payment pursuant to this Agreement that is prohibited by Section 18(k) of the Federal Deposit Insurance Act (codified at 12 U.S.C. sec. 1828(k)), 12 C.F.R. Part 359, or any other applicable law.
  - (b) In no event shall the Employer be obligated to make any payment pursuant to this Agreement if:
    - (i) the Bank is in default as defined in Section 3(x)(1) (12 U.S.C. Sec. 1813(x)(1)) of the Federal Deposit Insurance Act, as amended; provided any vested rights of the parties shall not be affected hereby; or
    - (ii) the Federal Deposit Insurance Corporation enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in Section 13(c) (12 U.S.C. Sec. 1823(c)) of the Federal Deposit Insurance Act, as amended.

- (c) The Employer may terminate Executive's employment at any time and for any reason, but any termination by the Board of the Employer, other than termination for Cause, shall not prejudice Executive's right to compensation or other benefits under this Agreement.
- (d) If the Executive is suspended from office and/or temporarily prohibited from participating in the conduct of the Employer's affairs by a notice served under Section 8(e)(3) (12 U.S.C. 1818(e)(3)) or 8(g)(1) (12 U.S.C. 1818(g)) of the Federal Deposit Insurance Act, the Employer's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Employer may in its discretion (i) pay the Executive all or part of the compensation withheld while its contract obligations were suspended and (ii) reinstate (in whole or in part) any of the obligations which were suspended.
- (e) If the Executive is removed and/or permanently prohibited from participating in the conduct of the Employer's affairs by an order issued under Section 8(e)(4) (12 U.S.C. 1818(e)) or 8(g)(1) (12 U.S.C. 1818(g)) of the Federal Deposit Insurance Act, all obligations of the Employer under this Agreement shall terminate as of the effective date of the order, but vested rights of the contracting parties shall not be affected.

19. Dispute Resolution.

- (a) If a dispute arises out of or relates to this Agreement, or the breach hereof, and if such dispute is not settled within a commercially reasonable time (not to exceed sixty (60) days, through negotiations), the parties shall attempt in good faith to settle the dispute by mediation under the Employment Arbitration Rules and Mediation Procedures of the American Arbitration Association as then in effect (the "**Rules**"). No resolution or attempted resolution of any dispute or disagreement pursuant to this Section 19 shall be deemed to be a waiver of any term or provision of this Agreement or a consent to any breach or default, unless such waiver or consent shall be in writing and signed by the party claimed to have waived or consented.
- (b) Any dispute or controversy not settled in accordance with the foregoing provisions of this Section 19 shall be settled exclusively by binding arbitration, as an alternative to civil litigation and without any trial by jury to resolve such claims, to be conducted before three arbitrators in Lake County, Illinois in accordance with the Rules. Each party shall select one such arbitrator and the two arbitrators so selected shall choose a third.
- (c) The parties covenant and agree that they will participate in such mediation and/or arbitration in good faith and that the Employer will bear the fees and expenses of such proceeding charged by the American Arbitration Association (including the fees of the arbitrators). In an arbitration, the arbitrator shall not have the power to award damages in excess of actual compensatory damages and shall not multiply actual damages or award punitive damages or any other damages, and each party hereby irrevocably waives any claim to such damages.
- (d) Any payment required under this Section 19 shall be made after the final resolution referenced herein, but not later than the later of (i) December 31 of the calendar year in which such resolution is achieved, and (ii) two and one-half months after the date on which such final resolution is achieved.

- (e) The prevailing party in any arbitration proceeding or any other legal proceeding between the Executive and the Employer, shall be entitled to reimbursement from the other party for all reasonable attorneys' fees, costs and expenses that such prevailing party incurs in connection with any such proceeding.
20. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be taken to be an original; but such counterparts shall together constitute one and the same document.
21. Successors to the Employer. The Employer shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Employer expressly to assume and agree to perform this Agreement to the same extent that the Employer would be required to perform it if no succession had taken place. Failure of the Employer to obtain an assumption of this Agreement at or prior to the effectiveness of any succession shall be a material breach of this Agreement.
22. No Mitigation. The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise. No payment provided for in this Agreement shall be reduced by any compensation earned by the Executive as the result of employment by another employer, or the Executive's receipt of income from any other sources, after termination of his employment with the Employer.
23. Survival. For avoidance of doubt, the provisions of Sections 6 through 11, and Sections 16 through 19 of this Agreement shall survive the expiration or earlier termination of the Term.

**[Signature Page Follows]**

IN WITNESS WHEREOF, this Agreement has been executed by the Employer, by its duly authorized officer, and by the Executive, this 18th day of January, 2022.

**NSTS BANCORP, INC.**

By: /s/ Kevin M. Dolan

---

Printed Name: Kevin M. Dolan

Its: Director

**NORTH SHORE TRUST AND SAVINGS**

By: /s/ Kevin M. Dolan

---

Printed Name: Kevin M. Dolan

Its: Director

**EXECUTIVE**

By: /s/ Stephen G. Lear

---

Stephen G. Lear

---

## EXHIBIT A

### RELEASE AGREEMENT

Executive enters into this Release Agreement ("**Release**") pursuant to the Employment Agreement by and among North Shore Trust and Savings, a federally chartered stock savings bank ("**Bank**"), NSTS Bancorp, Inc., a Delaware corporation and sole shareholder of the Bank ("**NSTS**"), (the Bank and NSTS are sometimes referred to collectively as the "**Employer**"), and Stephen G. Lear ("**Executive**") ("**Employment Agreement**"). Executive acknowledges that his timely execution and return and non-revocation of this Release are conditions to the provision of certain severance benefits pursuant to Section 6 or 7, as applicable, of the Employment Agreement.

Executive therefore agree to the following terms:

1. For valuable consideration, the adequacy of which is hereby acknowledged, the undersigned ("**Executive**"), for himself, his spouse, heirs, administrators, children, representatives, executors, successors, assigns, and all other persons claiming through Executive, if any (collectively, "**Releasers**"), does hereby release, waive, and forever discharge the Employer, the Employer's subsidiaries, parents, affiliates, related organizations, employees, officers, directors, attorneys, successors, and assigns (collectively, the "**Releasees**") from, and does fully waive any obligations of Releasees to Releasers for, any and all liability, actions, charges, causes of action, demands, damages, or claims for relief, remuneration, sums of money, accounts or expenses (including attorneys' fees and costs) of any kind whatsoever, whether known or unknown or contingent or absolute, which heretofore has been or which hereafter may be suffered or sustained, directly or indirectly, by Releasers in consequence of, arising out of, or in any way relating to Executive's employment with the Employer or any of its affiliates and the termination of Executive's employment. The foregoing release and discharge, waiver and covenant not to sue includes, but is not limited to, all claims and any obligations or causes of action arising from such claims, under common law including wrongful or retaliatory discharge, breach of contract and any action arising in tort including libel, slander, defamation or intentional infliction of emotional distress, and claims under any federal, state or local statute including Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1866 and 1871 (42 U.S.C. § 1981), the National Labor Relations Act, the Americans with Disabilities Act of 1990, the Rehabilitation Act of 1973, the Illinois Human Rights Act, the Age Discrimination in Employment Act or the discrimination or employment laws of any state or municipality, and/or any claims under any express or implied contract which Releasers may claim existed with Releasees. This also includes a release by Executive of any claims for breach of contract, wrongful discharge and all claims for alleged physical or personal injury, emotional distress relating to or arising out of Executive's employment with the Employer or the termination of that employment; and any claims under the WARN Act or any similar law, which requires, among other things, that advance notice be given of certain work force reductions. This release and waiver does not apply to any claims or rights that may arise after the date Executive signs this Release. The foregoing release does not apply to any claims or rights for compensation or benefits referred to in the Employment Agreement with respect to which this is the Release referred to therein or to any claims which cannot be waived by law.
2. Nothing in this Release is intended to prevent Executive from filing a charge with, providing information or testimony to, or participating in an investigation, hearing or proceeding with any governmental agency; provided, however, that Executive waives the right to receive any damages or other personal relief based on any claim, cause of action, demand or lawsuit relating to or arising from his employment relationship with the Employer brought by Executive or on the Executive's behalf, or by any third party, including as a member of any class, collective action, or as a relator under the False Claims Act.

3. Except as otherwise provided in Sections 1 and 2 of this Release, Executive agrees never to sue Releasees in any forum for any claim covered by the above waiver and release language. If Executive violates this Release by suing Releasees, other than as set forth in Sections 1 and 2 hereof, Executive shall be liable to the Employer for its reasonable attorneys' fees and other litigation costs incurred in defending against such a suit.
4. Executive acknowledges and recites that:
  - (a) Executive has read and understands the Release in its entirety;
  - (b) Executive has been advised and directed orally and in writing (and this subparagraph (b) constitutes such written direction) to seek legal counsel and any other advice he wishes with respect to the terms of this Release before executing it;
  - (c) Executive has been given up to twenty-one (21) days, or such longer period required by applicable law, to review this Release before executing it and has seven (7) days after signing it to revoke it by giving written notice to North Shore Trust and Savings, 700 S. Lewis Avenue, Waukegan, Illinois 60085; and
  - (d) Executive has executed this Release knowingly and voluntarily.
5. This General Release shall be governed by the internal laws (and not the choice of laws) of the State of Illinois, except for the application of preemptive Federal law.

**PLEASE READ THIS RELEASE AGREEMENT CAREFULLY. IT CONTAINS A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.**

So agreed.

Date: \_\_\_\_\_

## NORTH SHORE TRUST AND SAVINGS

Change In Control Severance Agreement

THIS CHANGE IN CONTROL SEVERANCE AGREEMENT (the “Agreement”) is entered into as of January 18, 2022 (the “Effective Date”) by and between North Shore Trust and Savings, a federally chartered savings association (“Bank”) and Nathan E. Walker (the “Executive”).

## WITNESSETH THAT:

WHEREAS, the Executive is employed by the Bank, and the Bank desires to provide protection to Executive in connection with any change in control of the Bank or its sole shareholder, NSTS Bancorp, Inc. (“NSTS”).

NOW, THEREFORE, it is hereby agreed by and between the parties, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, as follows:

## ARTICLE I

## ESTABLISHMENT AND PURPOSE

**1.1 Term of the Agreement.** Unless expired earlier as provided in Section 1.3 or terminated by the Bank pursuant to Section 2.3, this Agreement will commence on the Effective Date and remain in effect for an initial term of three years which will be automatically extended for one year on each anniversary of the Effective Date. In addition, if a Change in Control occurs while this Agreement is effective, this Agreement will remain irrevocably in effect for the greater of twelve (12) months from the date of the Change in Control or until all benefits then due and owing have been paid to the Executive hereunder, and will then expire.

**1.2 Purpose of the Agreement.** The purpose of this Agreement is to advance the interests of the Bank by providing the Executive with an assurance of equitable treatment, in terms of compensation and economic security, in the event of a Change in Control of the Bank or NSTS and to enable the Executive to maintain productivity and focus during a period of significant uncertainty that is inherent in a Change in Control. Further, the Bank believes that agreements of this kind will aid it in retaining the highly qualified, high performing professionals who are essential to its success.

**1.3 Contractual Right to Benefits.** This Agreement establishes and vests in the Executive a contractual right to the benefits to which he or she is entitled hereunder, enforceable by the Executive against the Bank. However, nothing in this Agreement will require or be deemed to require the Bank to segregate, earmark, or otherwise set aside any funds or other assets to provide for any payments to be made under it.

Subject to Section 3.2, the Bank will retain the right to terminate the Executive’s employment at any time prior to a Change in Control of the Bank or NSTS. Except as otherwise provided in Section 3.2, if the Executive’s employment is terminated prior to a Change in Control, this Agreement will no longer be applicable to the Executive, and any and all rights and obligations of the Bank and the Executive under this Agreement will cease.

---



## ARTICLE II

### DEFINITIONS AND CONSTRUCTION

**2.1 Definitions.** Whenever used in the Agreement, the following capitalized terms have the meanings set forth below.

- (a) **“Average Annual Bonus”** means the Executive’s actual average annual bonus earned over the three complete fiscal years prior to the Effective Date of Termination, or, if shorter, over the Executive’s entire period of employment.
- (b) **“Base Salary”** means the base rate of compensation paid to the Executive as annual salary as in effect as of the Effective Date of Termination.
- (c) **“Cause”** means a termination of the Executive’s employment by the Bank, for which no Severance Benefits are payable, as provided in Article IV.
- (d) **“Change in Control”** means the consummation by NSTS or the Bank, in a single transaction or series of related transactions, of any of the following: (i) the sale of all or a substantial portion of the assets of NSTS or the Bank to any person, group or entity; (ii) the merger, consolidation or other business combination of NSTS or the Bank with another entity, in which NSTS or the Bank, as applicable, is not the survivor of such merger, consolidation or other business combination or a majority of the board of directors or other governing body of the entity surviving or resulting from such merger, consolidation or other business combination is not composed of individuals who were serving on the Board of Directors of NSTS or the Bank, as the case may be, immediately prior to the consummation of such merger, consolidation or other business combination; or (iii) a change in control of NSTS or the Bank within the meaning of the Change in Bank Control Act and the applicable rules and regulations promulgated thereunder by the Board of Governors of the Federal Reserve System or the Office of the Comptroller of the Currency, as applicable, with respect to NSTS or the Bank, as applicable.
- (e) **“Code”** means the Internal Revenue Code of 1986, as amended.
- (f) **“Disability”** means a physical or mental condition that would entitle the Executive to benefits under the Bank’s long-term disability plan, or if the Bank maintains no such plan, then under the federal Social Security laws.
- (g) **“Effective Date of Termination”** means the date on which a Qualifying Termination occurs which triggers Severance Benefits hereunder.
- (h) **“Expiration Date”** means the date the Agreement expires, as provided in Section 1.1 herein.
- (i) **“Good Reason”** means (i) a material reduction in the Executive’s annual Base Salary; (ii) material adverse change by the Bank, not consented to by the Executive, in Executive’s responsibilities, powers, or duties at the Bank; or (iii) a required relocation of the Executive to a location more than twenty-five (25) miles from the Executive’s then existing job location to which the Executive does not consent.
- (j) **“Qualifying Termination”** means any of the events described in Section 3.2, the occurrence of which triggers the payment of Severance Benefits.
- (k) **“Severance Benefit”** means the payment of severance compensation as provided in Article III.

**2.2 Severability.** If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of this Agreement, and this Agreement will be construed and enforced as if the illegal or invalid provision had not been included.

**2.3 Amendment or Termination.** The provisions of this Agreement may be amended by written agreement between the Bank and the Executive, with any material amendment approved by the Bank's Board of Directors. Subject to the final sentence of Section 1.1, the Bank may terminate this Agreement by written resolution of the Bank's Board of Directors, effective as of a date at least twelve months following the date the Bank gives written notice to the Executive of its intent to terminate the Agreement.

**2.4 Applicable Law.** To the extent not preempted by the laws of the United States, the laws of the State of Illinois, without regard to its conflict of laws provisions, will be the controlling law in all matters relating to this Agreement.

**2.5 Notice.** Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by registered or certified mail, postage paid, to the Executive at the last address the Executive has filed in writing with the Bank or, in the case of the Bank, to the Bank's main office.

**2.6 Golden Parachute Limitation.** In no event will the Bank (or any affiliate) be obligated to make any payment pursuant to this Agreement that is prohibited by Section 18(k) of the Federal Deposit Insurance Act (codified at 12 U.S.C. sec. 1828(k)), 12 C.F.R. Part 359, or any other applicable law.

**2.7 Counterparts.** This Agreement may be executed in two (2) or more counterparts by original signature, facsimile or any generally accepted electronic means (including transmission of a .pdf file containing executed signature pages), each of which shall be deemed an original, and all of which shall constitute one and the same Agreement.

**2.8 Arbitration.** Any dispute or controversy arising under or in connection with this Agreement will be settled exclusively by binding arbitration, as an alternative to civil litigation and without any trial by jury to resolve such claims, conducted by a single arbitrator, mutually acceptable to the Bank and the Executive, sitting in a location selected by the Bank within 50 miles from the main office of the Bank, in accordance with the Employment Arbitration Rules and Mediation Procedures of the American Arbitration Association as then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

**2.9 Entire Agreement.** This Agreement contains the entire understanding between the parties hereto and supersedes any prior agreement between the Bank and the Executive.

**2.10 No Attachment.** Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation, or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void, and of no effect.

## ARTICLE III

### SEVERANCE BENEFITS

**3.1 Right to Severance Benefits.** Subject to the provisions hereof, the Executive will be entitled to receive from the Bank Severance Benefits as described in Section 3.3 if there has been a Change in Control of the Bank or NSTS and if any of the events designated within Section 3.2 occur. The Executive will not be entitled to receive Severance Benefits if his or her employment with the Bank ends due to death, Disability, voluntary retirement, a voluntary termination by the Executive without Good Reason, or due to an involuntary termination by the Bank for Cause.

**3.2 Qualifying Terminations.** The occurrence of any one of the following events within twelve (12) calendar months after a Change in Control of the Bank or NSTS will trigger the payment of Severance Benefits under this Agreement:

- (a) an involuntary termination of the Executive's employment without Cause;
- (b) a voluntary termination of the Executive's employment with the Bank for Good Reason;
- (c) the failure or refusal of a successor company (including, but not limited to, an individual, corporation, association, or partnership) to assume the Bank's obligations under this Agreement, as required by Section 7.1; and
- (d) a breach by the Bank or any successor company of any of the provisions of this Agreement.

In addition, an involuntary termination without Cause will trigger the payment of Severance Benefits under this Agreement if the Executive's employment is terminated by the Bank without Cause within three (3) months prior to a Change in Control that actually occurs during the term of this Agreement and either (i) the termination without Cause was at the request or direction of a person who has entered into an agreement with the Bank or NSTS, the consummation of which would constitute a Change in Control, or (ii) the Executive reasonably demonstrates that the termination without Cause is otherwise in connection with or in anticipation of the Change in Control.

**3.3 Description of Severance Benefits.** If the Executive becomes entitled to receive Severance Benefits, as provided in Sections 3.1 and 3.2, the Bank will pay to the Executive and provide him or her with the following:

- (a) an amount equal to two (2) times the sum of (i) Executive's annual Base Salary and (ii) the Executive's Average Annual Bonus; and
- (b) continuation of the welfare benefits of medical, dental or other health coverage, at the same premium cost to the Executive and at the same coverage level as in effect as of the Executive's Effective Date of Termination until the twelve month anniversary of the Effective Date of Termination, without regard to the federal income tax consequences of that continuation.

The treatment of any options or other stock-based awards held by the Executive will be subject to the terms of the plan or plans under which they were granted. Benefits under subsection 3.3(b) will be discontinued prior to the end of the twelve month anniversary of the Effective Date of Termination if the Executive receives substantially similar benefits in the aggregate from a subsequent employer, as determined by the Bank's Board of Directors. Continued medical, dental or other health benefits under subsection 3.3(b) will count toward any COBRA continuation coverage period that may apply to the Executive.

**3.4 Cause.** Nothing in this Agreement will be construed to prevent the Bank from terminating the Executive's employment for Cause. If the Bank does so, no Severance Benefits will be payable to the Executive under this Agreement. Cause is defined to mean the following: (i) Executive's personal dishonesty, incompetence, willful misconduct, or breach of fiduciary duty involving personal profit; (ii) Executive's willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or a final cease-and-desist order from bank regulatory agencies; (iii) Executive's intentional failure to perform the duties assigned to him by the Board of the Bank; or (iv) other conduct of Executive that is prejudicial to the best interests of the Bank, as reasonably determined by the Bank's Board of Directors, including without limitation, unauthorized disclosure of the Bank's confidential information or trade secrets.

#### ARTICLE IV

##### FORM AND TIMING OF SEVERANCE BENEFITS

**4.1 Form and Timing of Severance Benefits.** Subject to Article VIII below, the Severance Benefits described in Section 3.3(a) will be paid in cash to the Executive in substantially equal installments in accordance with the Bank's payroll practice over a twelve (12) month period commencing within sixty (60) days after the date of termination, subject to the receipt of a signed release agreement (in a form to be mutually agreed to by the parties) within such sixty (60) day period; and further subject to the delay specified in Section 8.1 hereof in the event Executive is a specified employee (as defined therein); provided, however, that if the 60-day period begins in one calendar year and ends in a second calendar year, the payment of the Severance Amount shall commence in the second calendar year. Solely for purposes of Section 409A of the Code, each installment payment shall be considered a separate payment. The Severance Benefits described in Section 3.3(b) will be provided by the Bank to the Executive immediately upon the Effective Date of Termination and will continue to be provided until the twelve month anniversary of the Effective Date of Termination. However, the Severance Benefits described in Section 3.3(b) will be discontinued prior to the end of the twelve month period immediately upon the Executive's receiving similar benefits from a subsequent employer, as determined by the Bank's Board of Directors.

**4.2 Withholding of Taxes.** The Bank will withhold from any amounts payable under this Agreement all federal, state, city, or other taxes that are legally required.

#### ARTICLE V

##### REDUCTION OF PAYMENTS IN CERTAIN CIRCUMSTANCES

**5.1 No Excise Tax Gross-Up; Possible Reduction in Payments.** Any provision of this Agreement or any other compensation plan, program or agreement to which Executive is a party or under which Executive is covered to the contrary notwithstanding, Executive will not be entitled to any gross-up or other payment for golden parachute excise taxes Executive may owe pursuant to Section 4999 of the Code. In the event that any Severance Benefits or other payments or benefits otherwise payable to Executive (a) constitute "parachute payments" within the meaning of Section 280G of the Code, and (b) but for this Section 5.1 would be subject to the excise tax imposed by Section 4999 of the Code, then such Severance Benefits payable under this Agreement and under such other plans, programs and agreements shall be reduced to an aggregate amount that is \$1.00 less than such amount that would trigger the excise tax imposed by Section 4999 of the Code, so that no portion of such benefits paid hereunder will be subject to the excise tax under Section 4999 of the Code. Any reduction in payments and/or benefits required by this Section 5.1 shall occur in the following order: (1) reduction of Severance Benefits or other cash payments, beginning with payments scheduled to occur soonest; (2) reduction of vesting or acceleration of equity awards (in reverse order of the date of the grant); and (3) reduction of other benefits paid or provided to Executive.

## ARTICLE VI

### OTHER RIGHTS AND BENEFITS NOT AFFECTED

**6.1 Other Benefits.** Except as provided in this Section below, neither the provisions of this Agreement nor the Severance Benefits provided for hereunder will reduce any amounts otherwise payable, or in any way diminish the Executive's rights as an employee of the Bank, whether existing now or hereafter, under any benefit, incentive, retirement, stock option, stock bonus, stock purchase plan, or any employment agreement. Notwithstanding the foregoing, if the Executive is also a covered employee under a severance plan of the Bank or NSTS, the Executive will be entitled to receive the Severance Benefits provided under this Agreement in lieu of any severance pay or other benefits provided under that severance plan. Benefits provided under this Agreement will not increase any amounts otherwise payable under any other arrangement, if that other arrangement does not provide that severance benefits will be taken into account in determining benefits.

**6.2 Employment Status.** This Agreement does not constitute a contract of employment or impose on the Bank any obligation to retain the Executive as an employee, to change the status of the Executive's employment as an employee at will, or to change the Bank's policies regarding termination of employment.

## ARTICLE VII

### SUCCESSORS

**7.1 Successors.** The Bank will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) of all or substantially all of the business and/or assets of the Bank or of any division or subsidiary thereof to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform it if no such succession had taken place. Failure of the Bank to obtain such an assumption and agreement prior to the effectiveness of any such succession will be a breach of this Agreement and will entitle the Executive to compensation from the Bank in the same amount and on the same terms as he or she would be entitled hereunder if terminated voluntarily for Good Reason, except that, for the purposes of implementing the foregoing, the date on which any succession becomes effective will be deemed the Effective Date of Termination. This Agreement will inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If the Executive dies while any amount would still be payable to him or her hereunder had he or she continued to live, any such amount, unless otherwise provided herein, will be paid in accordance with the terms of this Agreement, to the Executive's devisee, legatee, or other designee, or if there is no such designee, to the Executive's estate.

**7.2 Beneficiaries.** The Executive may designate a beneficiary under this Agreement in the form of a signed writing acceptable to the Bank's Board of Directors. The Executive may make or change such designation at any time.

ARTICLE VIII

CODE SECTION 409A

**8.1 Code Section 409A.** The parties intend that this Agreement will be administered in accordance with Internal Revenue Code Section 409A (“**Code Section 409A**”). To the extent that any provision of this Agreement is ambiguous as to its compliance with Code Section 409A, the provision shall be read in such a manner so that all payments hereunder comply with Code Section 409A. The parties agree that this Agreement may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Code Section 409A and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party. No action or failure by the Bank in good faith to act, pursuant to this Section 8.1, shall subject the Bank to any claim, liability, or expense, and the Bank shall not have any obligation to indemnify or otherwise protect Executive from the obligation to pay any taxes pursuant to Code Section 409A.

Anything in this Agreement to the contrary notwithstanding, if at the time of the Executive’s separation from service within the meaning of Code Section 409A, the Bank determines that the Executive is a “specified employee” within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that the Executive becomes entitled to under this Agreement on account of the Executive’s separation from service would be considered deferred compensation subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment shall not be payable and such benefit shall not be provided until the date that is the earlier of (A) six months and one day after the Executive’s separation from service, or (B) the Executive’s death. If any such delayed cash payment is otherwise payable on an installment basis, the first payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision, and the balance of the installments shall be payable in accordance with their original schedule. Any such delayed cash payment shall earn interest at an annual rate equal to the applicable federal short-term rate published by the Internal Revenue Service for the month in which the date of separation from service occurs, from such date of separation from service until the payment.

To the extent that any payment or benefit described in this Agreement constitutes “non-qualified deferred compensation” under Code Section 409A, and to the extent that such payment or benefit is payable upon the Executive’s termination of employment, then such payments or benefits shall be payable only upon the Executive’s “separation from service.” The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h).

[SIGNATURE PAGE FOLLOWS]

**IN WITNESS WHEREOF**, the Executive has executed this Agreement and the Bank has caused this Agreement to be executed pursuant to a resolution of its Board of Directors, as of the day and year first above written.

**NORTH SHORE TRUST AND SAVINGS**

**EXECUTIVE**

/s/ Stephen G. Lear

\_\_\_\_\_  
By: Stephen G. Lear  
Its: Chairman of the Board and Chief Executive  
Officer

/s/ Nathan E. Walker

\_\_\_\_\_  
Name: Nathan E. Walker

## NORTH SHORE TRUST AND SAVINGS

Change In Control Severance Agreement

THIS CHANGE IN CONTROL SEVERANCE AGREEMENT (the “Agreement”) is entered into as of January 18, 2022 (the “Effective Date”) by and between North Shore Trust and Savings, a federally chartered savings association (“Bank”) and Carissa H. Schoolcraft (the “Executive”).

## WITNESSETH THAT:

WHEREAS, the Executive is employed by the Bank, and the Bank desires to provide protection to Executive in connection with any change in control of the Bank or its sole shareholder, NSTS Bancorp, Inc. (“NSTS”).

NOW, THEREFORE, it is hereby agreed by and between the parties, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, as follows:

## ARTICLE I

## ESTABLISHMENT AND PURPOSE

**1.1 Term of the Agreement.** Unless expired earlier as provided in Section 1.3 or terminated by the Bank pursuant to Section 2.3, this Agreement will commence on the Effective Date and remain in effect for an initial term of three years which will be automatically extended for one year on each anniversary of the Effective Date. In addition, if a Change in Control occurs while this Agreement is effective, this Agreement will remain irrevocably in effect for the greater of twelve (12) months from the date of the Change in Control or until all benefits then due and owing have been paid to the Executive hereunder, and will then expire.

**1.2 Purpose of the Agreement.** The purpose of this Agreement is to advance the interests of the Bank by providing the Executive with an assurance of equitable treatment, in terms of compensation and economic security, in the event of a Change in Control of the Bank or NSTS and to enable the Executive to maintain productivity and focus during a period of significant uncertainty that is inherent in a Change in Control. Further, the Bank believes that agreements of this kind will aid it in retaining the highly qualified, high performing professionals who are essential to its success.

**1.3 Contractual Right to Benefits.** This Agreement establishes and vests in the Executive a contractual right to the benefits to which he or she is entitled hereunder, enforceable by the Executive against the Bank. However, nothing in this Agreement will require or be deemed to require the Bank to segregate, earmark, or otherwise set aside any funds or other assets to provide for any payments to be made under it.

Subject to Section 3.2, the Bank will retain the right to terminate the Executive’s employment at any time prior to a Change in Control of the Bank or NSTS. Except as otherwise provided in Section 3.2, if the Executive’s employment is terminated prior to a Change in Control, this Agreement will no longer be applicable to the Executive, and any and all rights and obligations of the Bank and the Executive under this Agreement will cease.

---



## ARTICLE II

### DEFINITIONS AND CONSTRUCTION

**2.1 Definitions.** Whenever used in the Agreement, the following capitalized terms have the meanings set forth below.

- (a) “**Average Annual Bonus**” means the Executive’s actual average annual bonus earned over the three complete fiscal years prior to the Effective Date of Termination, or, if shorter, over the Executive’s entire period of employment.
- (b) “**Base Salary**” means the base rate of compensation paid to the Executive as annual salary as in effect as of the Effective Date of Termination.
- (c) “**Cause**” means a termination of the Executive’s employment by the Bank, for which no Severance Benefits are payable, as provided in Article IV.
- (d) “**Change in Control**” means the consummation by NSTS or the Bank, in a single transaction or series of related transactions, of any of the following: (i) the sale of all or a substantial portion of the assets of NSTS or the Bank to any person, group or entity; (ii) the merger, consolidation or other business combination of NSTS or the Bank with another entity, in which NSTS or the Bank, as applicable, is not the survivor of such merger, consolidation or other business combination or a majority of the board of directors or other governing body of the entity surviving or resulting from such merger, consolidation or other business combination is not composed of individuals who were serving on the Board of Directors of NSTS or the Bank, as the case may be, immediately prior to the consummation of such merger, consolidation or other business combination; or (iii) a change in control of NSTS or the Bank within the meaning of the Change in Bank Control Act and the applicable rules and regulations promulgated thereunder by the Board of Governors of the Federal Reserve System or the Office of the Comptroller of the Currency, as applicable, with respect to NSTS or the Bank, as applicable.
- (e) “**Code**” means the Internal Revenue Code of 1986, as amended.
- (f) “**Disability**” means a physical or mental condition that would entitle the Executive to benefits under the Bank’s long-term disability plan, or if the Bank maintains no such plan, then under the federal Social Security laws.
- (g) “**Effective Date of Termination**” means the date on which a Qualifying Termination occurs which triggers Severance Benefits hereunder.
- (h) “**Expiration Date**” means the date the Agreement expires, as provided in Section 1.1 herein.
- (i) “**Good Reason**” means (i) a material reduction in the Executive’s annual Base Salary; (ii) material adverse change by the Bank, not consented to by the Executive, in Executive’s responsibilities, powers, or duties at the Bank; or (iii) a required relocation of the Executive to a location more than twenty-five (25) miles from the Executive’s then existing job location to which the Executive does not consent.
- (j) “**Qualifying Termination**” means any of the events described in Section 3.2, the occurrence of which triggers the payment of Severance Benefits.
- (k) “**Severance Benefit**” means the payment of severance compensation as provided in Article III.

**2.2 Severability.** If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of this Agreement, and this Agreement will be construed and enforced as if the illegal or invalid provision had not been included.

**2.3 Amendment or Termination.** The provisions of this Agreement may be amended by written agreement between the Bank and the Executive, with any material amendment approved by the Bank's Board of Directors. Subject to the final sentence of Section 1.1, the Bank may terminate this Agreement by written resolution of the Bank's Board of Directors, effective as of a date at least twelve months following the date the Bank gives written notice to the Executive of its intent to terminate the Agreement.

**2.4 Applicable Law.** To the extent not preempted by the laws of the United States, the laws of the State of Illinois, without regard to its conflict of laws provisions, will be the controlling law in all matters relating to this Agreement.

**2.5 Notice.** Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by registered or certified mail, postage paid, to the Executive at the last address the Executive has filed in writing with the Bank or, in the case of the Bank, to the Bank's main office.

**2.6 Golden Parachute Limitation.** In no event will the Bank (or any affiliate) be obligated to make any payment pursuant to this Agreement that is prohibited by Section 18(k) of the Federal Deposit Insurance Act (codified at 12 U.S.C. sec. 1828(k)), 12 C.F.R. Part 359, or any other applicable law.

**2.7 Counterparts.** This Agreement may be executed in two (2) or more counterparts by original signature, facsimile or any generally accepted electronic means (including transmission of a .pdf file containing executed signature pages), each of which shall be deemed an original, and all of which shall constitute one and the same Agreement.

**2.8 Arbitration.** Any dispute or controversy arising under or in connection with this Agreement will be settled exclusively by binding arbitration, as an alternative to civil litigation and without any trial by jury to resolve such claims, conducted by a single arbitrator, mutually acceptable to the Bank and the Executive, sitting in a location selected by the Bank within 50 miles from the main office of the Bank, in accordance with the Employment Arbitration Rules and Mediation Procedures of the American Arbitration Association as then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

**2.9 Entire Agreement.** This Agreement contains the entire understanding between the parties hereto and supersedes any prior agreement between the Bank and the Executive.

**2.10 No Attachment.** Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation, or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void, and of no effect.

## ARTICLE III

### SEVERANCE BENEFITS

**3.1 Right to Severance Benefits.** Subject to the provisions hereof, the Executive will be entitled to receive from the Bank Severance Benefits as described in Section 3.3 if there has been a Change in Control of the Bank or NSTS and if any of the events designated within Section 3.2 occur. The Executive will not be entitled to receive Severance Benefits if his or her employment with the Bank ends due to death, Disability, voluntary retirement, a voluntary termination by the Executive without Good Reason, or due to an involuntary termination by the Bank for Cause.

**3.2 Qualifying Terminations.** The occurrence of any one of the following events within twelve (12) calendar months after a Change in Control of the Bank or NSTS will trigger the payment of Severance Benefits under this Agreement:

- (a) an involuntary termination of the Executive's employment without Cause;
- (b) a voluntary termination of the Executive's employment with the Bank for Good Reason;
- (c) the failure or refusal of a successor company (including, but not limited to, an individual, corporation, association, or partnership) to assume the Bank's obligations under this Agreement, as required by Section 7.1; and
- (d) a breach by the Bank or any successor company of any of the provisions of this Agreement.

In addition, an involuntary termination without Cause will trigger the payment of Severance Benefits under this Agreement if the Executive's employment is terminated by the Bank without Cause within three (3) months prior to a Change in Control that actually occurs during the term of this Agreement and either (i) the termination without Cause was at the request or direction of a person who has entered into an agreement with the Bank or NSTS, the consummation of which would constitute a Change in Control, or (ii) the Executive reasonably demonstrates that the termination without Cause is otherwise in connection with or in anticipation of the Change in Control.

**3.3 Description of Severance Benefits.** If the Executive becomes entitled to receive Severance Benefits, as provided in Sections 3.1 and 3.2, the Bank will pay to the Executive and provide him or her with the following:

- (a) an amount equal to one and a half (1.5) times the sum of (i) Executive's annual Base Salary and (ii) the Executive's Average Annual Bonus; and
- (b) continuation of the welfare benefits of medical, dental or other health coverage, at the same premium cost to the Executive and at the same coverage level as in effect as of the Executive's Effective Date of Termination until the twelve month anniversary of the Effective Date of Termination, without regard to the federal income tax consequences of that continuation.

The treatment of any options or other stock-based awards held by the Executive will be subject to the terms of the plan or plans under which they were granted. Benefits under subsection 3.3(b) will be discontinued prior to the end of the twelve month anniversary of the Effective Date of Termination if the Executive receives substantially similar benefits in the aggregate from a subsequent employer, as determined by the Bank's Board of Directors. Continued medical, dental or other health benefits under subsection 3.3(b) will count toward any COBRA continuation coverage period that may apply to the Executive.

**3.4 Cause.** Nothing in this Agreement will be construed to prevent the Bank from terminating the Executive's employment for Cause. If the Bank does so, no Severance Benefits will be payable to the Executive under this Agreement. Cause is defined to mean the following: (i) Executive's personal dishonesty, incompetence, willful misconduct, or breach of fiduciary duty involving personal profit; (ii) Executive's willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or a final cease-and-desist order from bank regulatory agencies; (iii) Executive's intentional failure to perform the duties assigned to him by the Board of the Bank; or (iv) other conduct of Executive that is prejudicial to the best interests of the Bank, as reasonably determined by the Bank's Board of Directors, including without limitation, unauthorized disclosure of the Bank's confidential information or trade secrets.

#### ARTICLE IV

##### FORM AND TIMING OF SEVERANCE BENEFITS

**4.1 Form and Timing of Severance Benefits.** Subject to Article VIII below, the Severance Benefits described in Section 3.3(a) will be paid in cash to the Executive in substantially equal installments in accordance with the Bank's payroll practice over a twelve (12) month period commencing within sixty (60) days after the date of termination, subject to the receipt of a signed release agreement (in a form to be mutually agreed to by the parties) within such sixty (60) day period; and further subject to the delay specified in Section 8.1 hereof in the event Executive is a specified employee (as defined therein); provided, however, that if the 60-day period begins in one calendar year and ends in a second calendar year, the payment of the Severance Amount shall commence in the second calendar year. Solely for purposes of Section 409A of the Code, each installment payment shall be considered a separate payment. The Severance Benefits described in Section 3.3(b) will be provided by the Bank to the Executive immediately upon the Effective Date of Termination and will continue to be provided until the twelve month anniversary of the Effective Date of Termination. However, the Severance Benefits described in Section 3.3(b) will be discontinued prior to the end of the twelve month period immediately upon the Executive's receiving similar benefits from a subsequent employer, as determined by the Bank's Board of Directors.

**4.2 Withholding of Taxes.** The Bank will withhold from any amounts payable under this Agreement all federal, state, city, or other taxes that are legally required.

#### ARTICLE V

##### REDUCTION OF PAYMENTS IN CERTAIN CIRCUMSTANCES

**5.1 No Excise Tax Gross-Up; Possible Reduction in Payments.** Any provision of this Agreement or any other compensation plan, program or agreement to which Executive is a party or under which Executive is covered to the contrary notwithstanding, Executive will not be entitled to any gross-up or other payment for golden parachute excise taxes Executive may owe pursuant to Section 4999 of the Code. In the event that any Severance Benefits or other payments or benefits otherwise payable to Executive (a) constitute "parachute payments" within the meaning of Section 280G of the Code, and (b) but for this Section 5.1 would be subject to the excise tax imposed by Section 4999 of the Code, then such Severance Benefits payable under this Agreement and under such other plans, programs and agreements shall be reduced to an aggregate amount that is \$1.00 less than such amount that would trigger the excise tax imposed by Section 4999 of the Code, so that no portion of such benefits paid hereunder will be subject to the excise tax under Section 4999 of the Code. Any reduction in payments and/or benefits required by this Section 5.1 shall occur in the following order: (1) reduction of Severance Benefits or other cash payments, beginning with payments scheduled to occur soonest; (2) reduction of vesting or acceleration of equity awards (in reverse order of the date of the grant); and (3) reduction of other benefits paid or provided to Executive.

## ARTICLE VI

### OTHER RIGHTS AND BENEFITS NOT AFFECTED

**6.1 Other Benefits.** Except as provided in this Section below, neither the provisions of this Agreement nor the Severance Benefits provided for hereunder will reduce any amounts otherwise payable, or in any way diminish the Executive's rights as an employee of the Bank, whether existing now or hereafter, under any benefit, incentive, retirement, stock option, stock bonus, stock purchase plan, or any employment agreement. Notwithstanding the foregoing, if the Executive is also a covered employee under a severance plan of the Bank or NSTS, the Executive will be entitled to receive the Severance Benefits provided under this Agreement in lieu of any severance pay or other benefits provided under that severance plan. Benefits provided under this Agreement will not increase any amounts otherwise payable under any other arrangement, if that other arrangement does not provide that severance benefits will be taken into account in determining benefits.

**6.2 Employment Status.** This Agreement does not constitute a contract of employment or impose on the Bank any obligation to retain the Executive as an employee, to change the status of the Executive's employment as an employee at will, or to change the Bank's policies regarding termination of employment.

## ARTICLE VII

### SUCCESSORS

**7.1 Successors.** The Bank will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) of all or substantially all of the business and/or assets of the Bank or of any division or subsidiary thereof to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform it if no such succession had taken place. Failure of the Bank to obtain such an assumption and agreement prior to the effectiveness of any such succession will be a breach of this Agreement and will entitle the Executive to compensation from the Bank in the same amount and on the same terms as he or she would be entitled hereunder if terminated voluntarily for Good Reason, except that, for the purposes of implementing the foregoing, the date on which any succession becomes effective will be deemed the Effective Date of Termination. This Agreement will inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If the Executive dies while any amount would still be payable to him or her hereunder had he or she continued to live, any such amount, unless otherwise provided herein, will be paid in accordance with the terms of this Agreement, to the Executive's devisee, legatee, or other designee, or if there is no such designee, to the Executive's estate.

**7.2 Beneficiaries.** The Executive may designate a beneficiary under this Agreement in the form of a signed writing acceptable to the Bank's Board of Directors. The Executive may make or change such designation at any time.

ARTICLE VIII

CODE SECTION 409A

**8.1 Code Section 409A.** The parties intend that this Agreement will be administered in accordance with Internal Revenue Code Section 409A (“**Code Section 409A**”). To the extent that any provision of this Agreement is ambiguous as to its compliance with Code Section 409A, the provision shall be read in such a manner so that all payments hereunder comply with Code Section 409A. The parties agree that this Agreement may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Code Section 409A and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party. No action or failure by the Bank in good faith to act, pursuant to this Section 8.1, shall subject the Bank to any claim, liability, or expense, and the Bank shall not have any obligation to indemnify or otherwise protect Executive from the obligation to pay any taxes pursuant to Code Section 409A.

Anything in this Agreement to the contrary notwithstanding, if at the time of the Executive’s separation from service within the meaning of Code Section 409A, the Bank determines that the Executive is a “specified employee” within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that the Executive becomes entitled to under this Agreement on account of the Executive’s separation from service would be considered deferred compensation subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment shall not be payable and such benefit shall not be provided until the date that is the earlier of (A) six months and one day after the Executive’s separation from service, or (B) the Executive’s death. If any such delayed cash payment is otherwise payable on an installment basis, the first payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision, and the balance of the installments shall be payable in accordance with their original schedule. Any such delayed cash payment shall earn interest at an annual rate equal to the applicable federal short-term rate published by the Internal Revenue Service for the month in which the date of separation from service occurs, from such date of separation from service until the payment.

To the extent that any payment or benefit described in this Agreement constitutes “non-qualified deferred compensation” under Code Section 409A, and to the extent that such payment or benefit is payable upon the Executive’s termination of employment, then such payments or benefits shall be payable only upon the Executive’s “separation from service.” The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h).

[SIGNATURE PAGE FOLLOWS]

**IN WITNESS WHEREOF**, the Executive has executed this Agreement and the Bank has caused this Agreement to be executed pursuant to a resolution of its Board of Directors, as of the day and year first above written.

**NORTH SHORE TRUST AND SAVINGS**

**EXECUTIVE**

/s/ Stephen G. Lear

By: Stephen G. Lear  
Its: Chairman of the Board and Chief Executive Officer

/s/ Carissa H. Schoolcraft

Name: Carissa H. Schoolcraft

## NORTH SHORE TRUST AND SAVINGS

Change In Control Severance Agreement

THIS CHANGE IN CONTROL SEVERANCE AGREEMENT (the “Agreement”) is entered into as of January 18, 2022 (the “Effective Date”) by and between North Shore Trust and Savings, a federally chartered savings association (“Bank”) and Amy L. Avakian (the “Executive”).

## WITNESSETH THAT:

WHEREAS, the Executive is employed by the Bank, and the Bank desires to provide protection to Executive in connection with any change in control of the Bank or its sole shareholder, NSTS Bancorp, Inc. (“NSTS”).

NOW, THEREFORE, it is hereby agreed by and between the parties, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, as follows:

## ARTICLE I

## ESTABLISHMENT AND PURPOSE

**1.1 Term of the Agreement.** Unless expired earlier as provided in Section 1.3 or terminated by the Bank pursuant to Section 2.3, this Agreement will commence on the Effective Date and remain in effect for an initial term of three years which will be automatically extended for one year on each anniversary of the Effective Date. In addition, if a Change in Control occurs while this Agreement is effective, this Agreement will remain irrevocably in effect for the greater of twelve (12) months from the date of the Change in Control or until all benefits then due and owing have been paid to the Executive hereunder, and will then expire.

**1.2 Purpose of the Agreement.** The purpose of this Agreement is to advance the interests of the Bank by providing the Executive with an assurance of equitable treatment, in terms of compensation and economic security, in the event of a Change in Control of the Bank or NSTS and to enable the Executive to maintain productivity and focus during a period of significant uncertainty that is inherent in a Change in Control. Further, the Bank believes that agreements of this kind will aid it in retaining the highly qualified, high performing professionals who are essential to its success.

**1.3 Contractual Right to Benefits.** This Agreement establishes and vests in the Executive a contractual right to the benefits to which he or she is entitled hereunder, enforceable by the Executive against the Bank. However, nothing in this Agreement will require or be deemed to require the Bank to segregate, earmark, or otherwise set aside any funds or other assets to provide for any payments to be made under it.

Subject to Section 3.2, the Bank will retain the right to terminate the Executive’s employment at any time prior to a Change in Control of the Bank or NSTS. Except as otherwise provided in Section 3.2, if the Executive’s employment is terminated prior to a Change in Control, this Agreement will no longer be applicable to the Executive, and any and all rights and obligations of the Bank and the Executive under this Agreement will cease.

---



## ARTICLE II

### DEFINITIONS AND CONSTRUCTION

**2.1 Definitions.** Whenever used in the Agreement, the following capitalized terms have the meanings set forth below.

- (a) **“Average Annual Bonus”** means the Executive’s actual average annual bonus earned over the three complete fiscal years prior to the Effective Date of Termination, or, if shorter, over the Executive’s entire period of employment.
- (b) **“Base Salary”** means the base rate of compensation paid to the Executive as annual salary as in effect as of the Effective Date of Termination.
- (c) **“Cause”** means a termination of the Executive’s employment by the Bank, for which no Severance Benefits are payable, as provided in Article IV.
- (d) **“Change in Control”** means the consummation by NSTS or the Bank, in a single transaction or series of related transactions, of any of the following: (i) the sale of all or a substantial portion of the assets of NSTS or the Bank to any person, group or entity; (ii) the merger, consolidation or other business combination of NSTS or the Bank with another entity, in which NSTS or the Bank, as applicable, is not the survivor of such merger, consolidation or other business combination or a majority of the board of directors or other governing body of the entity surviving or resulting from such merger, consolidation or other business combination is not composed of individuals who were serving on the Board of Directors of NSTS or the Bank, as the case may be, immediately prior to the consummation of such merger, consolidation or other business combination; or (iii) a change in control of NSTS or the Bank within the meaning of the Change in Bank Control Act and the applicable rules and regulations promulgated thereunder by the Board of Governors of the Federal Reserve System or the Office of the Comptroller of the Currency, as applicable, with respect to NSTS or the Bank, as applicable.
- (e) **“Code”** means the Internal Revenue Code of 1986, as amended.
- (f) **“Disability”** means a physical or mental condition that would entitle the Executive to benefits under the Bank’s long-term disability plan, or if the Bank maintains no such plan, then under the federal Social Security laws.
- (g) **“Effective Date of Termination”** means the date on which a Qualifying Termination occurs which triggers Severance Benefits hereunder.
- (h) **“Expiration Date”** means the date the Agreement expires, as provided in Section 1.1 herein.
- (i) **“Good Reason”** means (i) a material reduction in the Executive’s annual Base Salary; (ii) material adverse change by the Bank, not consented to by the Executive, in Executive’s responsibilities, powers, or duties at the Bank; or (iii) a required relocation of the Executive to a location more than twenty-five (25) miles from the Executive’s then existing job location to which the Executive does not consent.
- (j) **“Qualifying Termination”** means any of the events described in Section 3.2, the occurrence of which triggers the payment of Severance Benefits.
- (k) **“Severance Benefit”** means the payment of severance compensation as provided in Article III.

**2.2 Severability.** If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of this Agreement, and this Agreement will be construed and enforced as if the illegal or invalid provision had not been included.

**2.3 Amendment or Termination.** The provisions of this Agreement may be amended by written agreement between the Bank and the Executive, with any material amendment approved by the Bank's Board of Directors. Subject to the final sentence of Section 1.1, the Bank may terminate this Agreement by written resolution of the Bank's Board of Directors, effective as of a date at least twelve months following the date the Bank gives written notice to the Executive of its intent to terminate the Agreement.

**2.4 Applicable Law.** To the extent not preempted by the laws of the United States, the laws of the State of Illinois, without regard to its conflict of laws provisions, will be the controlling law in all matters relating to this Agreement.

**2.5 Notice.** Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by registered or certified mail, postage paid, to the Executive at the last address the Executive has filed in writing with the Bank or, in the case of the Bank, to the Bank's main office.

**2.6 Golden Parachute Limitation.** In no event will the Bank (or any affiliate) be obligated to make any payment pursuant to this Agreement that is prohibited by Section 18(k) of the Federal Deposit Insurance Act (codified at 12 U.S.C. sec. 1828(k)), 12 C.F.R. Part 359, or any other applicable law.

**2.7 Counterparts.** This Agreement may be executed in two (2) or more counterparts by original signature, facsimile or any generally accepted electronic means (including transmission of a .pdf file containing executed signature pages), each of which shall be deemed an original, and all of which shall constitute one and the same Agreement.

**2.8 Arbitration.** Any dispute or controversy arising under or in connection with this Agreement will be settled exclusively by binding arbitration, as an alternative to civil litigation and without any trial by jury to resolve such claims, conducted by a single arbitrator, mutually acceptable to the Bank and the Executive, sitting in a location selected by the Bank within 50 miles from the main office of the Bank, in accordance with the Employment Arbitration Rules and Mediation Procedures of the American Arbitration Association as then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

**2.9 Entire Agreement.** This Agreement contains the entire understanding between the parties hereto and supersedes any prior agreement between the Bank and the Executive.

**2.10 No Attachment.** Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation, or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void, and of no effect.

## ARTICLE III

### SEVERANCE BENEFITS

**3.1 Right to Severance Benefits.** Subject to the provisions hereof, the Executive will be entitled to receive from the Bank Severance Benefits as described in Section 3.3 if there has been a Change in Control of the Bank or NSTS and if any of the events designated within Section 3.2 occur. The Executive will not be entitled to receive Severance Benefits if his or her employment with the Bank ends due to death, Disability, voluntary retirement, a voluntary termination by the Executive without Good Reason, or due to an involuntary termination by the Bank for Cause.

**3.2 Qualifying Terminations.** The occurrence of any one of the following events within twelve (12) calendar months after a Change in Control of the Bank or NSTS will trigger the payment of Severance Benefits under this Agreement:

- (a) an involuntary termination of the Executive's employment without Cause;
- (b) a voluntary termination of the Executive's employment with the Bank for Good Reason;
- (c) the failure or refusal of a successor company (including, but not limited to, an individual, corporation, association, or partnership) to assume the Bank's obligations under this Agreement, as required by Section 7.1; and
- (d) a breach by the Bank or any successor company of any of the provisions of this Agreement.

In addition, an involuntary termination without Cause will trigger the payment of Severance Benefits under this Agreement if the Executive's employment is terminated by the Bank without Cause within three (3) months prior to a Change in Control that actually occurs during the term of this Agreement and either (i) the termination without Cause was at the request or direction of a person who has entered into an agreement with the Bank or NSTS, the consummation of which would constitute a Change in Control, or (ii) the Executive reasonably demonstrates that the termination without Cause is otherwise in connection with or in anticipation of the Change in Control.

**3.3 Description of Severance Benefits.** If the Executive becomes entitled to receive Severance Benefits, as provided in Sections 3.1 and 3.2, the Bank will pay to the Executive and provide him or her with the following:

- (a) an amount equal to one and a half (1.5) times the sum of (i) Executive's annual Base Salary and (ii) the Executive's Average Annual Bonus; and
- (b) continuation of the welfare benefits of medical, dental or other health coverage, at the same premium cost to the Executive and at the same coverage level as in effect as of the Executive's Effective Date of Termination until the twelve month anniversary of the Effective Date of Termination, without regard to the federal income tax consequences of that continuation.

The treatment of any options or other stock-based awards held by the Executive will be subject to the terms of the plan or plans under which they were granted. Benefits under subsection 3.3(b) will be discontinued prior to the end of the twelve month anniversary of the Effective Date of Termination if the Executive receives substantially similar benefits in the aggregate from a subsequent employer, as determined by the Bank's Board of Directors. Continued medical, dental or other health benefits under subsection 3.3(b) will count toward any COBRA continuation coverage period that may apply to the Executive.

**3.4 Cause.** Nothing in this Agreement will be construed to prevent the Bank from terminating the Executive's employment for Cause. If the Bank does so, no Severance Benefits will be payable to the Executive under this Agreement. Cause is defined to mean the following: (i) Executive's personal dishonesty, incompetence, willful misconduct, or breach of fiduciary duty involving personal profit; (ii) Executive's willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or a final cease-and-desist order from bank regulatory agencies; (iii) Executive's intentional failure to perform the duties assigned to him by the Board of the Bank; or (iv) other conduct of Executive that is prejudicial to the best interests of the Bank, as reasonably determined by the Bank's Board of Directors, including without limitation, unauthorized disclosure of the Bank's confidential information or trade secrets.

#### ARTICLE IV

##### FORM AND TIMING OF SEVERANCE BENEFITS

**4.1 Form and Timing of Severance Benefits.** Subject to Article VIII below, the Severance Benefits described in Section 3.3(a) will be paid in cash to the Executive in substantially equal installments in accordance with the Bank's payroll practice over a twelve (12) month period commencing within sixty (60) days after the date of termination, subject to the receipt of a signed release agreement (in a form to be mutually agreed to by the parties) within such sixty (60) day period; and further subject to the delay specified in Section 8.1 hereof in the event Executive is a specified employee (as defined therein); provided, however, that if the 60-day period begins in one calendar year and ends in a second calendar year, the payment of the Severance Amount shall commence in the second calendar year. Solely for purposes of Section 409A of the Code, each installment payment shall be considered a separate payment. The Severance Benefits described in Section 3.3(b) will be provided by the Bank to the Executive immediately upon the Effective Date of Termination and will continue to be provided until the twelve month anniversary of the Effective Date of Termination. However, the Severance Benefits described in Section 3.3(b) will be discontinued prior to the end of the twelve month period immediately upon the Executive's receiving similar benefits from a subsequent employer, as determined by the Bank's Board of Directors.

**4.2 Withholding of Taxes.** The Bank will withhold from any amounts payable under this Agreement all federal, state, city, or other taxes that are legally required.

#### ARTICLE V

##### REDUCTION OF PAYMENTS IN CERTAIN CIRCUMSTANCES

**5.1 No Excise Tax Gross-Up; Possible Reduction in Payments.** Any provision of this Agreement or any other compensation plan, program or agreement to which Executive is a party or under which Executive is covered to the contrary notwithstanding, Executive will not be entitled to any gross-up or other payment for golden parachute excise taxes Executive may owe pursuant to Section 4999 of the Code. In the event that any Severance Benefits or other payments or benefits otherwise payable to Executive (a) constitute "parachute payments" within the meaning of Section 280G of the Code, and (b) but for this Section 5.1 would be subject to the excise tax imposed by Section 4999 of the Code, then such Severance Benefits payable under this Agreement and under such other plans, programs and agreements shall be reduced to an aggregate amount that is \$1.00 less than such amount that would trigger the excise tax imposed by Section 4999 of the Code, so that no portion of such benefits paid hereunder will be subject to the excise tax under Section 4999 of the Code. Any reduction in payments and/or benefits required by this Section 5.1 shall occur in the following order: (1) reduction of Severance Benefits or other cash payments, beginning with payments scheduled to occur soonest; (2) reduction of vesting or acceleration of equity awards (in reverse order of the date of the grant); and (3) reduction of other benefits paid or provided to Executive.

## ARTICLE VI

### OTHER RIGHTS AND BENEFITS NOT AFFECTED

**6.1 Other Benefits.** Except as provided in this Section below, neither the provisions of this Agreement nor the Severance Benefits provided for hereunder will reduce any amounts otherwise payable, or in any way diminish the Executive's rights as an employee of the Bank, whether existing now or hereafter, under any benefit, incentive, retirement, stock option, stock bonus, stock purchase plan, or any employment agreement. Notwithstanding the foregoing, if the Executive is also a covered employee under a severance plan of the Bank or NSTS, the Executive will be entitled to receive the Severance Benefits provided under this Agreement in lieu of any severance pay or other benefits provided under that severance plan. Benefits provided under this Agreement will not increase any amounts otherwise payable under any other arrangement, if that other arrangement does not provide that severance benefits will be taken into account in determining benefits.

**6.2 Employment Status.** This Agreement does not constitute a contract of employment or impose on the Bank any obligation to retain the Executive as an employee, to change the status of the Executive's employment as an employee at will, or to change the Bank's policies regarding termination of employment.

## ARTICLE VII

### SUCCESSORS

**7.1 Successors.** The Bank will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) of all or substantially all of the business and/or assets of the Bank or of any division or subsidiary thereof to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform it if no such succession had taken place. Failure of the Bank to obtain such an assumption and agreement prior to the effectiveness of any such succession will be a breach of this Agreement and will entitle the Executive to compensation from the Bank in the same amount and on the same terms as he or she would be entitled hereunder if terminated voluntarily for Good Reason, except that, for the purposes of implementing the foregoing, the date on which any succession becomes effective will be deemed the Effective Date of Termination. This Agreement will inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If the Executive dies while any amount would still be payable to him or her hereunder had he or she continued to live, any such amount, unless otherwise provided herein, will be paid in accordance with the terms of this Agreement, to the Executive's devisee, legatee, or other designee, or if there is no such designee, to the Executive's estate.

**7.2 Beneficiaries.** The Executive may designate a beneficiary under this Agreement in the form of a signed writing acceptable to the Bank's Board of Directors. The Executive may make or change such designation at any time.

ARTICLE VIII

CODE SECTION 409A

**8.1 Code Section 409A.** The parties intend that this Agreement will be administered in accordance with Internal Revenue Code Section 409A (“**Code Section 409A**”). To the extent that any provision of this Agreement is ambiguous as to its compliance with Code Section 409A, the provision shall be read in such a manner so that all payments hereunder comply with Code Section 409A. The parties agree that this Agreement may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Code Section 409A and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party. No action or failure by the Bank in good faith to act, pursuant to this Section 8.1, shall subject the Bank to any claim, liability, or expense, and the Bank shall not have any obligation to indemnify or otherwise protect Executive from the obligation to pay any taxes pursuant to Code Section 409A.

Anything in this Agreement to the contrary notwithstanding, if at the time of the Executive’s separation from service within the meaning of Code Section 409A, the Bank determines that the Executive is a “specified employee” within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that the Executive becomes entitled to under this Agreement on account of the Executive’s separation from service would be considered deferred compensation subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment shall not be payable and such benefit shall not be provided until the date that is the earlier of (A) six months and one day after the Executive’s separation from service, or (B) the Executive’s death. If any such delayed cash payment is otherwise payable on an installment basis, the first payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision, and the balance of the installments shall be payable in accordance with their original schedule. Any such delayed cash payment shall earn interest at an annual rate equal to the applicable federal short-term rate published by the Internal Revenue Service for the month in which the date of separation from service occurs, from such date of separation from service until the payment.

To the extent that any payment or benefit described in this Agreement constitutes “non-qualified deferred compensation” under Code Section 409A, and to the extent that such payment or benefit is payable upon the Executive’s termination of employment, then such payments or benefits shall be payable only upon the Executive’s “separation from service.” The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h).

[SIGNATURE PAGE FOLLOWS]

**IN WITNESS WHEREOF**, the Executive has executed this Agreement and the Bank has caused this Agreement to be executed pursuant to a resolution of its Board of Directors, as of the day and year first above written.

**NORTH SHORE TRUST AND SAVINGS**

**EXECUTIVE**

/s/ Stephen G. Lear

\_\_\_\_\_  
By: Stephen G. Lear  
Its: Chairman of the Board and Chief Executive  
Officer

/s/ Amy L. Avakian

\_\_\_\_\_  
Name: Amy L. Avakian

## NORTH SHORE TRUST AND SAVINGS

Change In Control Severance Agreement

THIS CHANGE IN CONTROL SEVERANCE AGREEMENT (the “Agreement”) is entered into as of January 18, 2022 (the “Effective Date”) by and between North Shore Trust and Savings, a federally chartered savings association (“Bank”) and Christine E. Stickler (the “Executive”).

## WITNESSETH THAT:

WHEREAS, the Executive is employed by the Bank, and the Bank desires to provide protection to Executive in connection with any change in control of the Bank or its sole shareholder, NSTS Bancorp, Inc. (“NSTS”).

NOW, THEREFORE, it is hereby agreed by and between the parties, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, as follows:

## ARTICLE I

## ESTABLISHMENT AND PURPOSE

**1.1 Term of the Agreement.** Unless expired earlier as provided in Section 1.3 or terminated by the Bank pursuant to Section 2.3, this Agreement will commence on the Effective Date and remain in effect for an initial term of three years which will be automatically extended for one year on each anniversary of the Effective Date. In addition, if a Change in Control occurs while this Agreement is effective, this Agreement will remain irrevocably in effect for the greater of twelve (12) months from the date of the Change in Control or until all benefits then due and owing have been paid to the Executive hereunder, and will then expire.

**1.2 Purpose of the Agreement.** The purpose of this Agreement is to advance the interests of the Bank by providing the Executive with an assurance of equitable treatment, in terms of compensation and economic security, in the event of a Change in Control of the Bank or NSTS and to enable the Executive to maintain productivity and focus during a period of significant uncertainty that is inherent in a Change in Control. Further, the Bank believes that agreements of this kind will aid it in retaining the highly qualified, high performing professionals who are essential to its success.

**1.3 Contractual Right to Benefits.** This Agreement establishes and vests in the Executive a contractual right to the benefits to which he or she is entitled hereunder, enforceable by the Executive against the Bank. However, nothing in this Agreement will require or be deemed to require the Bank to segregate, earmark, or otherwise set aside any funds or other assets to provide for any payments to be made under it.

Subject to Section 3.2, the Bank will retain the right to terminate the Executive’s employment at any time prior to a Change in Control of the Bank or NSTS. Except as otherwise provided in Section 3.2, if the Executive’s employment is terminated prior to a Change in Control, this Agreement will no longer be applicable to the Executive, and any and all rights and obligations of the Bank and the Executive under this Agreement will cease.

---



## ARTICLE II

### DEFINITIONS AND CONSTRUCTION

**2.1 Definitions.** Whenever used in the Agreement, the following capitalized terms have the meanings set forth below.

- (a) **“Average Annual Bonus”** means the Executive’s actual average annual bonus earned over the three complete fiscal years prior to the Effective Date of Termination, or, if shorter, over the Executive’s entire period of employment.
- (b) **“Base Salary”** means the base rate of compensation paid to the Executive as annual salary as in effect as of the Effective Date of Termination.
- (c) **“Cause”** means a termination of the Executive’s employment by the Bank, for which no Severance Benefits are payable, as provided in Article IV.
- (d) **“Change in Control”** means the consummation by NSTS or the Bank, in a single transaction or series of related transactions, of any of the following: (i) the sale of all or a substantial portion of the assets of NSTS or the Bank to any person, group or entity; (ii) the merger, consolidation or other business combination of NSTS or the Bank with another entity, in which NSTS or the Bank, as applicable, is not the survivor of such merger, consolidation or other business combination or a majority of the board of directors or other governing body of the entity surviving or resulting from such merger, consolidation or other business combination is not composed of individuals who were serving on the Board of Directors of NSTS or the Bank, as the case may be, immediately prior to the consummation of such merger, consolidation or other business combination; or (iii) a change in control of NSTS or the Bank within the meaning of the Change in Bank Control Act and the applicable rules and regulations promulgated thereunder by the Board of Governors of the Federal Reserve System or the Office of the Comptroller of the Currency, as applicable, with respect to NSTS or the Bank, as applicable.
- (e) **“Code”** means the Internal Revenue Code of 1986, as amended.
- (f) **“Disability”** means a physical or mental condition that would entitle the Executive to benefits under the Bank’s long-term disability plan, or if the Bank maintains no such plan, then under the federal Social Security laws.
- (g) **“Effective Date of Termination”** means the date on which a Qualifying Termination occurs which triggers Severance Benefits hereunder.
- (h) **“Expiration Date”** means the date the Agreement expires, as provided in Section 1.1 herein.
- (i) **“Good Reason”** means (i) a material reduction in the Executive’s annual Base Salary; (ii) material adverse change by the Bank, not consented to by the Executive, in Executive’s responsibilities, powers, or duties at the Bank; or (iii) a required relocation of the Executive to a location more than twenty-five (25) miles from the Executive’s then existing job location to which the Executive does not consent.
- (j) **“Qualifying Termination”** means any of the events described in Section 3.2, the occurrence of which triggers the payment of Severance Benefits.
- (k) **“Severance Benefit”** means the payment of severance compensation as provided in Article III.

**2.2 Severability.** If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of this Agreement, and this Agreement will be construed and enforced as if the illegal or invalid provision had not been included.

**2.3 Amendment or Termination.** The provisions of this Agreement may be amended by written agreement between the Bank and the Executive, with any material amendment approved by the Bank's Board of Directors. Subject to the final sentence of Section 1.1, the Bank may terminate this Agreement by written resolution of the Bank's Board of Directors, effective as of a date at least twelve months following the date the Bank gives written notice to the Executive of its intent to terminate the Agreement.

**2.4 Applicable Law.** To the extent not preempted by the laws of the United States, the laws of the State of Illinois, without regard to its conflict of laws provisions, will be the controlling law in all matters relating to this Agreement.

**2.5 Notice.** Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by registered or certified mail, postage paid, to the Executive at the last address the Executive has filed in writing with the Bank or, in the case of the Bank, to the Bank's main office.

**2.6 Golden Parachute Limitation.** In no event will the Bank (or any affiliate) be obligated to make any payment pursuant to this Agreement that is prohibited by Section 18(k) of the Federal Deposit Insurance Act (codified at 12 U.S.C. sec. 1828(k)), 12 C.F.R. Part 359, or any other applicable law.

**2.7 Counterparts.** This Agreement may be executed in two (2) or more counterparts by original signature, facsimile or any generally accepted electronic means (including transmission of a .pdf file containing executed signature pages), each of which shall be deemed an original, and all of which shall constitute one and the same Agreement.

**2.8 Arbitration.** Any dispute or controversy arising under or in connection with this Agreement will be settled exclusively by binding arbitration, as an alternative to civil litigation and without any trial by jury to resolve such claims, conducted by a single arbitrator, mutually acceptable to the Bank and the Executive, sitting in a location selected by the Bank within 50 miles from the main office of the Bank, in accordance with the Employment Arbitration Rules and Mediation Procedures of the American Arbitration Association as then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

**2.9 Entire Agreement.** This Agreement contains the entire understanding between the parties hereto and supersedes any prior agreement between the Bank and the Executive.

**2.10 No Attachment.** Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation, or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void, and of no effect.

## ARTICLE III

### SEVERANCE BENEFITS

**3.1 Right to Severance Benefits.** Subject to the provisions hereof, the Executive will be entitled to receive from the Bank Severance Benefits as described in Section 3.3 if there has been a Change in Control of the Bank or NSTS and if any of the events designated within Section 3.2 occur. The Executive will not be entitled to receive Severance Benefits if his or her employment with the Bank ends due to death, Disability, voluntary retirement, a voluntary termination by the Executive without Good Reason, or due to an involuntary termination by the Bank for Cause.

**3.2 Qualifying Terminations.** The occurrence of any one of the following events within twelve (12) calendar months after a Change in Control of the Bank or NSTS will trigger the payment of Severance Benefits under this Agreement:

- (a) an involuntary termination of the Executive's employment without Cause;
- (b) a voluntary termination of the Executive's employment with the Bank for Good Reason;
- (c) the failure or refusal of a successor company (including, but not limited to, an individual, corporation, association, or partnership) to assume the Bank's obligations under this Agreement, as required by Section 7.1; and
- (d) a breach by the Bank or any successor company of any of the provisions of this Agreement.

In addition, an involuntary termination without Cause will trigger the payment of Severance Benefits under this Agreement if the Executive's employment is terminated by the Bank without Cause within three (3) months prior to a Change in Control that actually occurs during the term of this Agreement and either (i) the termination without Cause was at the request or direction of a person who has entered into an agreement with the Bank or NSTS, the consummation of which would constitute a Change in Control, or (ii) the Executive reasonably demonstrates that the termination without Cause is otherwise in connection with or in anticipation of the Change in Control.

**3.3 Description of Severance Benefits.** If the Executive becomes entitled to receive Severance Benefits, as provided in Sections 3.1 and 3.2, the Bank will pay to the Executive and provide him or her with the following:

- (a) an amount equal to one and a half (1.5) times the sum of (i) Executive's annual Base Salary and (ii) the Executive's Average Annual Bonus; and
- (b) continuation of the welfare benefits of medical, dental or other health coverage, at the same premium cost to the Executive and at the same coverage level as in effect as of the Executive's Effective Date of Termination until the twelve month anniversary of the Effective Date of Termination, without regard to the federal income tax consequences of that continuation.

The treatment of any options or other stock-based awards held by the Executive will be subject to the terms of the plan or plans under which they were granted. Benefits under subsection 3.3(b) will be discontinued prior to the end of the twelve month anniversary of the Effective Date of Termination if the Executive receives substantially similar benefits in the aggregate from a subsequent employer, as determined by the Bank's Board of Directors. Continued medical, dental or other health benefits under subsection 3.3(b) will count toward any COBRA continuation coverage period that may apply to the Executive.

**3.4 Cause.** Nothing in this Agreement will be construed to prevent the Bank from terminating the Executive's employment for Cause. If the Bank does so, no Severance Benefits will be payable to the Executive under this Agreement. Cause is defined to mean the following: (i) Executive's personal dishonesty, incompetence, willful misconduct, or breach of fiduciary duty involving personal profit; (ii) Executive's willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or a final cease-and-desist order from bank regulatory agencies; (iii) Executive's intentional failure to perform the duties assigned to him by the Board of the Bank; or (iv) other conduct of Executive that is prejudicial to the best interests of the Bank, as reasonably determined by the Bank's Board of Directors, including without limitation, unauthorized disclosure of the Bank's confidential information or trade secrets.

#### ARTICLE IV

##### FORM AND TIMING OF SEVERANCE BENEFITS

**4.1 Form and Timing of Severance Benefits.** Subject to Article VIII below, the Severance Benefits described in Section 3.3(a) will be paid in cash to the Executive in substantially equal installments in accordance with the Bank's payroll practice over a twelve (12) month period commencing within sixty (60) days after the date of termination, subject to the receipt of a signed release agreement (in a form to be mutually agreed to by the parties) within such sixty (60) day period; and further subject to the delay specified in Section 8.1 hereof in the event Executive is a specified employee (as defined therein); provided, however, that if the 60-day period begins in one calendar year and ends in a second calendar year, the payment of the Severance Amount shall commence in the second calendar year. Solely for purposes of Section 409A of the Code, each installment payment shall be considered a separate payment. The Severance Benefits described in Section 3.3(b) will be provided by the Bank to the Executive immediately upon the Effective Date of Termination and will continue to be provided until the twelve month anniversary of the Effective Date of Termination. However, the Severance Benefits described in Section 3.3(b) will be discontinued prior to the end of the twelve month period immediately upon the Executive's receiving similar benefits from a subsequent employer, as determined by the Bank's Board of Directors.

**4.2 Withholding of Taxes.** The Bank will withhold from any amounts payable under this Agreement all federal, state, city, or other taxes that are legally required.

#### ARTICLE V

##### REDUCTION OF PAYMENTS IN CERTAIN CIRCUMSTANCES

**5.1 No Excise Tax Gross-Up; Possible Reduction in Payments.** Any provision of this Agreement or any other compensation plan, program or agreement to which Executive is a party or under which Executive is covered to the contrary notwithstanding, Executive will not be entitled to any gross-up or other payment for golden parachute excise taxes Executive may owe pursuant to Section 4999 of the Code. In the event that any Severance Benefits or other payments or benefits otherwise payable to Executive (a) constitute "parachute payments" within the meaning of Section 280G of the Code, and (b) but for this Section 5.1 would be subject to the excise tax imposed by Section 4999 of the Code, then such Severance Benefits payable under this Agreement and under such other plans, programs and agreements shall be reduced to an aggregate amount that is \$1.00 less than such amount that would trigger the excise tax imposed by Section 4999 of the Code, so that no portion of such benefits paid hereunder will be subject to the excise tax under Section 4999 of the Code. Any reduction in payments and/or benefits required by this Section 5.1 shall occur in the following order: (1) reduction of Severance Benefits or other cash payments, beginning with payments scheduled to occur soonest; (2) reduction of vesting or acceleration of equity awards (in reverse order of the date of the grant); and (3) reduction of other benefits paid or provided to Executive.

## ARTICLE VI

### OTHER RIGHTS AND BENEFITS NOT AFFECTED

**6.1 Other Benefits.** Except as provided in this Section below, neither the provisions of this Agreement nor the Severance Benefits provided for hereunder will reduce any amounts otherwise payable, or in any way diminish the Executive's rights as an employee of the Bank, whether existing now or hereafter, under any benefit, incentive, retirement, stock option, stock bonus, stock purchase plan, or any employment agreement. Notwithstanding the foregoing, if the Executive is also a covered employee under a severance plan of the Bank or NSTS, the Executive will be entitled to receive the Severance Benefits provided under this Agreement in lieu of any severance pay or other benefits provided under that severance plan. Benefits provided under this Agreement will not increase any amounts otherwise payable under any other arrangement, if that other arrangement does not provide that severance benefits will be taken into account in determining benefits.

**6.2 Employment Status.** This Agreement does not constitute a contract of employment or impose on the Bank any obligation to retain the Executive as an employee, to change the status of the Executive's employment as an employee at will, or to change the Bank's policies regarding termination of employment.

## ARTICLE VII

### SUCCESSORS

**7.1 Successors.** The Bank will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) of all or substantially all of the business and/or assets of the Bank or of any division or subsidiary thereof to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform it if no such succession had taken place. Failure of the Bank to obtain such an assumption and agreement prior to the effectiveness of any such succession will be a breach of this Agreement and will entitle the Executive to compensation from the Bank in the same amount and on the same terms as he or she would be entitled hereunder if terminated voluntarily for Good Reason, except that, for the purposes of implementing the foregoing, the date on which any succession becomes effective will be deemed the Effective Date of Termination. This Agreement will inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If the Executive dies while any amount would still be payable to him or her hereunder had he or she continued to live, any such amount, unless otherwise provided herein, will be paid in accordance with the terms of this Agreement, to the Executive's devisee, legatee, or other designee, or if there is no such designee, to the Executive's estate.

**7.2 Beneficiaries.** The Executive may designate a beneficiary under this Agreement in the form of a signed writing acceptable to the Bank's Board of Directors. The Executive may make or change such designation at any time.

**ARTICLE VIII**

**CODE SECTION 409A**

**8.1 Code Section 409A.** The parties intend that this Agreement will be administered in accordance with Internal Revenue Code Section 409A (“**Code Section 409A**”). To the extent that any provision of this Agreement is ambiguous as to its compliance with Code Section 409A, the provision shall be read in such a manner so that all payments hereunder comply with Code Section 409A. The parties agree that this Agreement may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Code Section 409A and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party. No action or failure by the Bank in good faith to act, pursuant to this Section 8.1, shall subject the Bank to any claim, liability, or expense, and the Bank shall not have any obligation to indemnify or otherwise protect Executive from the obligation to pay any taxes pursuant to Code Section 409A.

Anything in this Agreement to the contrary notwithstanding, if at the time of the Executive’s separation from service within the meaning of Code Section 409A, the Bank determines that the Executive is a “specified employee” within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that the Executive becomes entitled to under this Agreement on account of the Executive’s separation from service would be considered deferred compensation subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment shall not be payable and such benefit shall not be provided until the date that is the earlier of (A) six months and one day after the Executive’s separation from service, or (B) the Executive’s death. If any such delayed cash payment is otherwise payable on an installment basis, the first payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision, and the balance of the installments shall be payable in accordance with their original schedule. Any such delayed cash payment shall earn interest at an annual rate equal to the applicable federal short-term rate published by the Internal Revenue Service for the month in which the date of separation from service occurs, from such date of separation from service until the payment.

To the extent that any payment or benefit described in this Agreement constitutes “non-qualified deferred compensation” under Code Section 409A, and to the extent that such payment or benefit is payable upon the Executive’s termination of employment, then such payments or benefits shall be payable only upon the Executive’s “separation from service.” The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h).

**[SIGNATURE PAGE FOLLOWS]**

**IN WITNESS WHEREOF**, the Executive has executed this Agreement and the Bank has caused this Agreement to be executed pursuant to a resolution of its Board of Directors, as of the day and year first above written.

**NORTH SHORE TRUST AND SAVINGS**

/s/ Stephen G. Lear

By: Stephen G. Lear  
Its: Chairman of the Board and Chief Executive  
Officer

**EXECUTIVE**

/s/ Christine E. Stickler

Name: Christine E. Stickler

## Significant Subsidiaries of the Registrant

| Name                          | Percent Ownership | State of Incorporation |
|-------------------------------|-------------------|------------------------|
| North Shore Trust and Savings | 100%              | Federal                |



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

I, Stephen G. Lear, certify that:

1. I have reviewed this Annual Report on Form 10-K of NSTS Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 22, 2022

/s/ Stephen G. Lear  
\_\_\_\_\_  
Stephen G. Lear  
President and Chief Executive Officer

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

I, Carissa H. Schoolcraft, certify that:

1. I have reviewed this Annual Report on Form 10-K of NSTS Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 22, 2022

/s/ Carissa H. Schoolcraft  
Carissa H. Schoolcraft  
Chief Financial Officer

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

Stephen G. Lear, President and Chief Executive Officer, of NSTS Bancorp, Inc. (the "Company") and Carissa H. Schoolcraft, Chief Financial Officer of the Company, each hereby certify in his or her capacity as an officer of the Company that they have reviewed the Company's Annual Report on Form 10-K for the year ended December 31, 2021 as filed with the Securities and Exchange Commission (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.

Date: March 22, 2022

/s/ Stephen G. Lear  
\_\_\_\_\_  
Stephen G. Lear  
President and Chief Executive Officer

Date: March 22, 2022

/s/ Carissa H. Schoolcraft  
\_\_\_\_\_  
Carissa H. Schoolcraft  
Chief Financial Officer

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.