

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, 2023

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. ☐

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

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

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

The aggregate market value of the Registrant's voting common stock held by non-affiliates based on the closing price of the common stock on June 30, 2023 was \$46.4 million.

As of March 27, 2024, the Registrant had 5,315,261 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 22, 2024, 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

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Explanatory Note

NSTS Bancorp, Inc. was formed to serve as the stock holding company for North Shore Trust and Savings (the "Bank") in connection with the conversion of North Shore Trust and Savings, NSTS Financial Corporation and North Shore MHC, into the stock form of organization, which was completed on January 18, 2022. Accordingly, 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;
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of the allowance for credit losses;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- inflation and changes in the interest rate environment that reduce our margins and yields, reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans;
- our ability to manage our liquidity and to access cost-effective funding, including significant fluctuations in our deposit accounts;
- major catastrophes such as tornadoes, floods or other natural disasters, as well as public health emergencies and pandemics, the related disruption to local, regional and global economic activity and financial markets, and the impact that any of the foregoing may have on us and our customers and other constituencies;
- further data processing and other technological changes that may be more difficult or expensive than expected;
- success or consummation of new business initiatives may be more difficult or expensive than expected;
- interruptions involving information technology and communications systems of service providers;
- breaches or failures of information security controls or cyber-related incidents;
- demand for loans and deposits in our market area;
- our ability to continue to implement our business strategies;
- competition among depository and other financial institutions;
- adverse changes in the securities markets;

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

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

NSTS Bancorp, Inc.

NSTS Bancorp, Inc. ("NSTS" or the "Company", "we" or "our") 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, from the mutual to the stock form of organization, which was completed on January 18, 2022. 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 proceeds of the stock offering 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. NSTS Bancorp, Inc. does 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 also 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. During the third quarter of 2023, we added additional loan production offices in Aurora and Plainfield, Illinois to complement the existing loan production office in Chicago, Illinois. Our primary business activity is attracting deposits from the general public and using those funds to originate one- to four-family residential mortgage loans and purchase investments. We are subject to comprehensive regulation and examination by the Office of the Comptroller of the Currency (the "OCC").

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

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 Federal Home Loan Bank 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, one- to four- family residential construction 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. We also established a loan production office in Chicago, Illinois in 2016 to originate loans outside of our branch network in a more densely populated metropolitan area, which we believe benefits us geographically. To complement the existing offices, during the third quarter of 2023, we established two additional loan production offices in Aurora and Plainfield, Illinois to expand our loan originations within the Chicagoland area. The lending teams operating in the Aurora and Plainfield, Illinois loan production offices originate as Oak Leaf Community Mortgage, powered by North Shore Trust and Savings. As of December 31, 2023, \$111.1 million, or 92.0% of our total loan portfolio, consisted of one- to four-family residential mortgage loans. Our business strategy is to enhance our products and services with a continued focus on long-term one- to four-family residential first mortgage loans, and to maintain our holdings of commercial real estate and multi-family residential real estate 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, 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 three loan production offices in Chicago, Plainfield and Aurora, Illinois. We currently are evaluating sites for additional loan production branch offices in surrounding communities to be established over the next few years.

Our market area consists of Lake County, Cook County and Will 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. Will County's largest employers include Amazon and the local school district. Kenosha County's largest employers include Amazon, Uline, and Snap-on. Overall, Lake, Cook, Will 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, 2023, our net loan portfolio totaled \$120.6 million or 47.0% 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, one- to four- family residential construction 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, | | | |
|-----------------------------------|------------------------|----------------|-------------------|----------------|
| | 2023 | | 2022 | |
| | Amount | % | Amount | % |
| | (Dollars in thousands) | | | |
| First mortgage loans: | | | | |
| 1-4 family residential | \$ 111,081 | 91.97% | \$ 95,584 | 92.81% |
| Multi-family | 3,111 | 2.58% | 3,237 | 3.14% |
| Commercial | 3,835 | 3.17% | 3,921 | 3.81% |
| Construction | 2,508 | 2.08% | — | —% |
| Total first mortgage loans | 120,535 | | 102,742 | |
| Consumer loans | 248 | 0.20% | 249 | 0.24% |
| Total loans | 120,783 | 100.00% | 102,991 | 100.00% |
| Net deferred loan costs | 1,016 | | 992 | |
| Allowance for credit losses | (1,176) | | (624) | |
| Total loans, net | \$ 120,623 | | \$ 103,359 | |

Contractual Terms to Final Maturities. The following table shows the scheduled contractual maturities of our loans as of December 31, 2023, before giving effect to net deferred loan costs and the allowance for credit 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.

| | 1-4 Family Residential | Multi-Family Residential | Commercial | Construction | Consumer | Total |
|---|------------------------|--------------------------|-----------------|-----------------|---------------|-------------------|
| | (Dollars in thousands) | | | | | |
| Amounts due after December 31, 2023 in: | | | | | | |
| One year or less | \$ 127 | \$ — | \$ 187 | \$ — | \$ 13 | \$ 327 |
| After one year through two years | 169 | — | — | — | 6 | 175 |
| After two years through three years | 204 | — | — | 131 | 44 | 379 |
| After three years through five years | 1,124 | — | 44 | — | 138 | 1,306 |
| After five years through ten years | 4,795 | — | 1,369 | — | 44 | 6,208 |
| After ten years through 15 years | 17,307 | 1,138 | 1,666 | — | — | 20,111 |
| After 15 years | 87,355 | 1,973 | 569 | 2,377 | 3 | 92,277 |
| Total | \$ 111,081 | \$ 3,111 | \$ 3,835 | \$ 2,508 | \$ 248 | \$ 120,783 |

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The following table shows the dollar amount of our loans as of December 31, 2023, due after December 31, 2024, as shown in the preceding table, which have fixed interest rates or which have floating or adjustable interest rates.

| | Fixed-Rate | Floating or Adjustable-Rate (Dollars in thousands) | Total at December 31, 2023 |
|------------------------|------------------|--|----------------------------------|
| 1-4 family residential | \$ 82,640 | \$ 28,314 | \$ 110,954 |
| Multi-family | — | 3,111 | 3,111 |
| Commercial | 86 | 3,562 | 3,648 |
| Construction | 2,508 | — | 2,508 |
| Consumer | 184 | 51 | 235 |
| Total | <u>\$ 85,418</u> | <u>\$ 35,038</u> | <u>\$ 120,456</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 at our office locations in Lindenhurst, Plainfield and Aurora, 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 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 we believe is most advantageous to us from a profitability and risk management standpoint.

In addition to originating loans, during the previous year ended December 31, 2022, we purchased nine loans totaling \$5.3 million, which consisted primarily of 1-4 family adjustable rate mortgages in our primary lending area. Prior to purchasing, these loans were reviewed for compliance with our underwriting criteria. All loans were purchased with servicing retained by the originating bank. We actively monitor the performance of these loans through the receipt of regular reports from the originating lender regarding the loan's performance. As of December 31, 2023, all purchased loans are paying as pursuant to their contractual terms.

Further, although we have not previously purchased participation interests in commercial real estate mortgage loans, we will consider purchasing such participation interests 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, purchased, sold and repaid during the periods indicated.

| | Year Ended December 31, | |
|--|-------------------------|-----------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Loan originations: | | |
| 1-4 family residential | \$ 29,077 | \$ 22,987 |
| Commercial | 928 | 1,700 |
| Construction | 2,510 | — |
| Consumer | 164 | 376 |
| Total loan originations | \$ 32,679 | \$ 25,063 |
| Loan pool purchases | — | 5,253 |
| Loans sold | 3,358 | 8,644 |
| Loan principal repayments | 11,153 | 15,286 |
| Total loans sold and principal repayments | \$ 14,511 | \$ 23,930 |
| Change due to other items, net ⁽¹⁾ | (524) | 335 |
| Net increase in loans, net and loans held for sale | \$ 17,644 | \$ 6,721 |

(1) Other items consist of deferred fees and the change in allowance for credit losses.

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, 2023, \$111.1 million, or 92.0% 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, 2023, approximately 25.5% of our one to four-family residential mortgage loans maturing after December 31, 2024 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. At December 31, 2023, our multi-family residential mortgage loans amounted to \$3.1 million, or 2.5% 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, 2023, our largest multi-family residential mortgage loan was an \$823,000 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, 2023, we had a total of 10 multi-family residential mortgage loans and the average size of our multi-family residential mortgage loans was approximately \$311,000.

Our commercial real estate loan portfolio amounted to \$3.8 million, or 3.2% of the total loan portfolio, at December 31, 2023. These commercial real estate loans included 13 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. The two largest commercial real estate loans outstanding were \$1.7 million and \$1.2 million, and both loans were paying in accordance with all of 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 involves 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, 2023, 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, 2023 and 2022.

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.

Construction Lending. At December 31, 2023, our construction lending amounted to \$2.5 million, or 2.1% of the total loan portfolio. The construction loan portfolio consisted of three loans, the largest totaling \$2.3 million, which is the construction of a single family home in the Chicago, Illinois metro area expected to be completed in 2024, in which the loan will convert to a conventional mortgage loan with a remaining term of 29 years. In addition to single family residential construction projects, our construction lending consists of land loans for properties zoned for residential construction.

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 \$248,000, or 0.2%, of our total loan portfolio at December 31, 2023. At December 31, 2023, 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. We had no charge-offs on consumer loans during the years ended December 31, 2023 and 2022.

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, 2023, the maximum loan amount that may be approved by an individual officer is \$648,250, which is consistent with secondary market limits for conforming loans. Loans up to \$1.0 million 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 \$2.5 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 problem and potential problem 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 identified for individual evaluation for expected credit losses, the measurement of the loan in the allowance for credit losses is based on present value of expected future cash flows, except that expected credit losses for all collateral-dependent loans are measured based on the fair value of the collateral. As of December 31, 2023, and 2022, loans identified for individual evaluation of expected credit losses, amounted to \$200,000 and \$873,000, 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."

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 credit 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. General valuation allowances represent loss allowances which have been established to recognize the estimated credit 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 credit 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 individually evaluated loans. The general components cover non-classified loans and are based on proxy expected lifetime loss rates, adjusted for bank-specific facts and circumstances. The allowance for credit losses is maintained by management at a level believed adequate to absorb estimated credit losses that are expected to occur within the existing loan portfolio through their contractual terms. However, actual losses are dependent upon future events and, as such, further additions to the level of the allowance for credit losses may become necessary. As of January 1, 2023, the Company adopted ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. Refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Current Accounting Developments" for further discussion.

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, 2023, we had no loans classified as "special mention," "doubtful" or "loss," and \$200,000 of loans classified as "substandard."

Modifications on loans to borrowers experiencing financial difficulty . 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. There were no modifications on loans to borrowers experiencing financial difficulty during the years ended December 31, 2023 and 2022.

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

| | 31-89 Days Past Due and Accruing | 90 Days or Greater Past Due and Accruing | Non-Accrual | Total Past Due and Non-Accrual | Current | Total Loan Balance |
|--------------------------|---|---|---------------|--------------------------------------|-------------------|--------------------------|
| (Dollars in thousands) | | | | | | |
| December 31, 2023 | | | | | | |
| 1-4 family residential | \$ 131 | \$ — | \$ 200 | \$ 331 | \$ 110,750 | \$ 111,081 |
| Multi-family | — | — | — | — | 3,111 | 3,111 |
| Commercial | — | — | — | — | 3,835 | 3,835 |
| Construction | — | — | — | — | 2,508 | 2,508 |
| Consumer | — | — | — | — | 248 | 248 |
| Total | \$ 131 | \$ — | \$ 200 | \$ 331 | \$ 120,452 | \$ 120,783 |
| December 31, 2022 | | | | | | |
| 1-4 family residential | \$ 28 | \$ — | \$ 154 | \$ 182 | \$ 95,402 | \$ 95,584 |
| Multi-family | — | — | — | — | 3,237 | 3,237 |
| Commercial | — | — | — | — | 3,921 | 3,921 |
| Consumer | — | — | — | — | 249 | 249 |
| Total | \$ 28 | \$ — | \$ 154 | \$ 182 | \$ 102,809 | \$ 102,991 |

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 credit losses on our classified loans at December 31, 2023 and 2022 .

| | At December 31, | |
|-------------------------------|-----------------|---------------|
| | 2023 | 2022 |
| (Dollars in thousands) | | |
| Substandard loans | \$ 200 | \$ 188 |
| Doubtful loans | — | — |
| Loss loans | — | — |
| Total classified loans | \$ 200 | \$ 188 |

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In addition to classified loans, our other real estate owned, ("OREO") is classified as substandard. There were no OREO properties as of December 31, 2023 and 2022.

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, only for December 31, 2022 and prior, our performing Troubled Debt Restructurings ("TDR").

| | At December 31, | |
|---|------------------------|------------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Non-accruing loans: | | |
| 1-4 family residential | \$ 200 | \$ 154 |
| Multi-family | — | — |
| Commercial | — | — |
| Construction | — | — |
| Consumer | — | — |
| Total non-accruing loans | \$ 200 | \$ 154 |
| Accruing loans 90 days or more past due: | | |
| 1-4 family residential | — | — |
| Multi-family | — | — |
| Commercial | — | — |
| Construction | — | — |
| Consumer | — | — |
| Total accruing loans 90 days or more past due | — | — |
| Total non-performing loans | 200 | 154 |
| Other real estate owned | — | — |
| Total non-performing assets | 200 | 154 |
| Performing troubled debt restructurings | N/A | 685 |
| Total non-performing assets and performing TDRs | 200 | 839 |
| Total loans outstanding | \$ 120,783 | \$ 102,991 |
| Total assets outstanding | \$ 256,776 | \$ 264,206 |
| Total non-accruing loans as a percentage of total loans outstanding | 0.17% | 0.15% |
| Total non-performing loans as a percentage of total loans outstanding | 0.17% | 0.15% |
| Total non-performing loans as a percentage of total assets | 0.08% | 0.06% |
| Total non-performing assets as a percentage of total assets | 0.08% | 0.06% |

Allowance for Credit Losses. The following table shows changes in our allowance for credit losses during the periods presented.

| | At or for the Year Ended December 31, | |
|--|--|------------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Total loans outstanding at end of period | \$ 120,783 | \$ 102,991 |
| Total non-accrual loans at end of period | 200 | 154 |
| Total non-performing loans at end of period | 200 | 154 |
| Total average loans outstanding | 107,438 | 97,714 |
| Allowance for credit losses, beginning of period | 624 | 779 |
| Cumulative effect of ASU 2016-13 adoption (CECL) | 384 | N/A |
| Provision for (reversal of) credit losses | 168 | (230) |
| Charge-offs: | | |
| 1-4 family residential | — | — |
| Multi-family | — | — |
| Commercial | — | — |
| Construction | — | — |
| Consumer | — | — |
| Total charge-offs | \$ — | \$ — |
| Recoveries on loans previously charged-off: | | |
| 1-4 family residential | \$ — | \$ (75) |
| Multi-family | — | — |
| Commercial | — | — |
| Construction | — | — |
| Consumer | — | — |
| Total recoveries | \$ — | \$ (75) |
| Net (recoveries) charge-offs | \$ — | \$ (75) |
| Allowance for credit losses, end of period | \$ 1,176 | \$ 624 |
| Allowance for credit losses as a percent of non-performing loans | 588.00% | 405.19% |
| Allowance for credit losses as a percent of total loans outstanding | 0.97% | 0.61% |
| Allowance for credit losses as a percent of total non-accrual loans | 588.00% | 405.19% |
| Ratio of net (recoveries) charge-offs during the period to average loans outstanding during the period | 0.00% | (0.08)% |

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The allowance for credit losses is established through a provision for credit losses. We maintain the allowance at a level believed, to the best of management's knowledge, to cover estimated lifetime credit losses in the loan portfolio at each reporting date. Management reviews the allowance for credit losses on no less than a quarterly basis. 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, 2023, our allowance for credit losses amounted to \$1.2 million and our allowance for loan losses amount to \$624,000 at December 31, 2022. The establishment of the allowance for credit 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 credit losses. Such agencies may require North Shore Trust and Savings to make additional provisions for estimated credit losses based upon judgments different from those of management.

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

| | At December 31, | | | | | |
|------------------------|------------------------|--|--|------------------------|--|--|
| | 2023 | | | 2022 | | |
| | 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) | | | | | |
| 1-4 family residential | \$ 1,094 | 93.03% | 91.97% | \$ 581 | 93.11% | 92.81% |
| Multi-family | 40 | 3.40% | 2.58% | 19 | 3.04% | 3.14% |
| Commercial | 37 | 3.15% | 3.17% | 19 | 3.04% | 3.81% |
| Construction | 4 | 0.34% | 2.08% | — | 0.00% | 0.00% |
| Consumer | 1 | 0.08% | 0.20% | 5 | 0.81% | 0.24% |
| Total | <u>\$ 1,176</u> | <u>100.00%</u> | <u>100.00%</u> | <u>\$ 624</u> | <u>100.00%</u> | <u>100.00%</u> |

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, | | | |
|--|------------------------|------------------|-------------------|-------------------|
| | 2023 | | 2022 | |
| | Amortized Cost | Market Value | Amortized Cost | Market Value |
| | (Dollars in thousands) | | | |
| Securities available-for-sale | | | | |
| U.S. Treasuries | \$ 2,995 | \$ 2,973 | \$ 7,443 | \$ 7,288 |
| U.S. Government and agency obligations | 10,234 | 9,106 | 23,260 | 21,390 |
| Municipal obligations | 15,451 | 13,570 | 22,603 | 19,637 |
| Mortgage-backed securities | 34,884 | 30,351 | 41,202 | 35,738 |
| Collateralized mortgage obligations | 30,073 | 26,135 | 42,257 | 37,152 |
| Total securities available-for-sale | <u>\$ 93,637</u> | <u>\$ 82,135</u> | <u>\$ 136,765</u> | <u>\$ 121,205</u> |

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").

During the fourth quarter of 2023, management repositioned the balance sheet by selling approximately \$30.3 million in book value of available-for-sale investment securities with an average yield of 2.83%. The sale of these securities is designed to seek to improve the Bank's earnings going forward, beginning in fiscal year 2024, and to provide liquidity to deleverage its balance sheet. Proceeds from the sale were used to repay \$10.0 million in existing debt with a current rate of 5.31%, with the remainder deployed into cash and short-term U.S. Treasury notes with an average expected yield in excess of 5.0% and to fund additional residential loan growth and general working capital at the Bank.

As of December 31, 2023, our securities available-for-sale portfolio totaled \$82.1 million, or 32.0% of total assets at such date. The largest component of our investment securities portfolio at December 31, 2023 was investment in pass-through mortgage-backed securities issued by Fannie Mae, Ginnie Mae and Freddie Mac, which amounted to \$30.3 million, followed by collateralized mortgage obligations issued by Fannie Mae, Ginnie Mae and Freddie Mac, which amounted to \$26.1 million. Our investment in U.S. government and federal agency obligations as of December 31, 2023, was \$9.1 million and our investment in municipal obligations as of December 31, 2023, was \$13.6 million. During the year ended December 31, 2023, the investments in short term U.S. Treasuries began maturing and we sold a portion of the holdings, resulting in an ending balance of \$3.0 million as of December 31, 2023.

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, 2023, all securities were classified as securities available for sale. At December 31, 2023, 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. At December 31, 2023, the available-for-sale securities portfolio had a net unrealized loss position of \$11.5 million. Some investment securities held in the portfolio have declined in value but do not presently represent realized losses. Unrealized losses on investment securities have not been recognized into income because the securities 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 and increased market interest rates. The fair values are expected to recover as the securities approach their maturity dates.

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, 2023. 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.

| | Amounts at December 31, 2023, Which Mature In | | | | |
|--|---|------------------------------------|-----------------------------------|------------------|------------------|
| | One Year or Less | After One through Five Years | After Five through 10 Years | Over 10 Years | Total |
| (Dollars in thousands) | | | | | |
| Securities available for sale: | | | | | |
| U.S. Treasuries | \$ 2,973 | \$ — | \$ — | \$ — | \$ 2,973 |
| U.S. Government and agency obligations | — | 4,769 | 4,337 | — | 9,106 |
| Municipal obligations | 1,292 | 1,461 | 882 | 9,935 | 13,570 |
| Mortgage-backed securities | — | 8,976 | 19,777 | 1,598 | 30,351 |
| Collateralized mortgage obligations | — | 12,919 | 9,756 | 3,460 | 26,135 |
| Total | <u>\$ 4,265</u> | <u>\$ 28,125</u> | <u>\$ 34,752</u> | <u>\$ 14,993</u> | <u>\$ 82,135</u> |
| Weighted average yield: | | | | | |
| U.S. Treasuries | 3.46% | N/A | N/A | N/A | 3.46% |
| U.S. Government and agency obligations | N/A | 2.43 | 1.51 | N/A | 1.98 |
| Municipal obligations | 2.86 | 2.47 | 2.54 | 2.54 | 2.55 |
| Mortgage-backed securities | N/A | 1.86 | 1.95 | 2.08 | 1.93 |
| Collateralized mortgage obligations | N/A | 2.09 | 1.92 | 2.05 | 2.02 |
| Total weighted average yield | <u>3.27%</u> | <u>2.09%</u> | <u>1.90%</u> | <u>2.37%</u> | <u>2.12%</u> |

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

| | At December 31, | |
|-------------------------------------|------------------------|-------------------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Fixed-rate | \$ 80,899 | \$ 118,524 |
| Adjustable-rate | 1,236 | 2,681 |
| Total securities available for sale | <u>\$ 82,135</u> | <u>\$ 121,205</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, 2023, 60.2% 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, | | | |
|------------------------------|------------------------|---------|------------|---------|
| | 2023 | | 2022 | |
| | Amount | % | Amount | % |
| | (Dollars in thousands) | | | |
| Certificate accounts: | | | | |
| 0.00% - 0.99% | \$ 12,301 | 7.29% | \$ 33,155 | 18.55% |
| 1.00% - 1.99% | 13,064 | 7.74% | 5,618 | 3.15% |
| 2.00% - 2.99% | 12,260 | 7.26% | 16,467 | 9.21% |
| 3.00% - 3.99% | 4,336 | 2.57% | 146 | 0.08% |
| 4.00% - 4.99% | 1,968 | 1.16% | — | 0.00% |
| 5.00% - or more | 23,326 | 13.82% | — | 0.00% |
| Total certificate accounts | \$ 67,255 | 39.84% | \$ 55,386 | 30.99% |
| Transaction accounts: | | | | |
| Savings | \$ 41,774 | 24.74% | \$ 49,068 | 27.46% |
| Checking: | | | | |
| Interest-bearing | 15,346 | 9.09% | 18,659 | 10.44% |
| Noninterest-bearing | 12,424 | 7.36% | 12,977 | 7.26% |
| Money market | 32,027 | 18.97% | 42,624 | 23.85% |
| Total transaction accounts | \$ 101,571 | 60.16% | \$ 123,328 | 69.01% |
| Total deposits | \$ 168,826 | 100.00% | \$ 178,714 | 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, | | | | | |
|---------------------------------|--|------------------|-------------------|-----------------|------------------|-------------------|
| | 2023 | | | 2022 | | |
| | Average Balance | Interest Expense | Average Rate Paid | Average Balance | Interest Expense | Average Rate Paid |
| | (Dollars in thousands) | | | | | |
| Savings accounts | \$ 45,696 | \$ 68 | 0.15% | \$ 48,787 | \$ 73 | 0.15% |
| Checking-interest bearing | 16,714 | 9 | 0.05% | 17,817 | 9 | 0.05% |
| Money market | 36,875 | 226 | 0.61% | 45,328 | 96 | 0.21% |
| Time deposit | 56,573 | 1,033 | 1.83% | 61,414 | 586 | 0.95% |
| Total interest-bearing deposits | \$ 155,858 | \$ 1,336 | 0.86% | \$ 173,346 | \$ 764 | 0.44% |
| Total deposits | \$ 168,682 | \$ 1,336 | 0.79% | \$ 191,445 | \$ 764 | 0.40% |

The following table shows, by various interest rate categories and maturities, the amount of time deposits as of December 31, 2023.

| Time deposit | Balance at December 31, 2023 | | | | | |
|----------------------------|---|-----------|----------|----------|------------|-----------|
| | Maturing in the 12 Months Ending December 31, | | | | | |
| | 2024 | 2025 | 2026 | 2027 | Thereafter | Total |
| | (Dollars in thousands) | | | | | |
| 0.00% - 0.99% | \$ 8,174 | \$ 1,750 | \$ 1,247 | \$ 1,130 | \$ — | \$ 12,301 |
| 1.00% - 1.99% | 5,744 | 3,266 | 431 | 418 | 3,205 | 13,064 |
| 2.00% - 2.99% | 8,389 | 1,489 | 835 | 148 | 1,399 | 12,260 |
| 3.00% - 3.99% | 3,963 | — | — | — | 373 | 4,336 |
| 4.00% - 4.99% | 485 | 131 | 1,352 | — | — | 1,968 |
| 5.00% - or more | 19,882 | 3,444 | — | — | — | 23,326 |
| Total certificate accounts | \$ 46,637 | \$ 10,080 | \$ 3,865 | \$ 1,696 | \$ 4,977 | \$ 67,255 |

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The following table shows the maturities of our time deposits in excess of the FDIC insurance limit (generally, \$250,000) as of December 31, 2023 by time remaining to maturity.

| Quarter Ending: | Amount | Weighted Average Rate |
|--|------------------------|-----------------------|
| | (Dollars in thousands) | |
| March 31, 2024 | \$ 1,514 | 1.81% |
| June 30, 2024 | 870 | 2.21% |
| September 30, 2024 | 3,060 | 4.58% |
| December 31, 2024 | 1,287 | 3.82% |
| After December 31, 2024 | 3,244 | 3.22% |
| Total time deposits with balances of \$250,000 or more | <u>\$ 9,975</u> | <u>3.41%</u> |

The amount of our total deposits with accounts over the FDIC's insurance limit of \$250,000 was \$34.3 million or 20.3% of total deposits, and \$43.6 million or 24.4% of total deposits, at December 31, 2023 and 2022, respectively.

Borrowings. During the year ended December 31, 2023, the Company borrowed \$5.0 million from the FHLB Chicago and an additional \$10.0 million from the Federal Reserve Bank of Chicago as part of the Bank Term Funding Program. The advance from the FHLB Chicago was taken in June 2023 and is payable in June 2025 with a fixed borrowing rate of 4.78%. The borrowing from the Federal Reserve Bank of Chicago was taken in November 2023 and was repaid in December 2023, with a fixed borrowing rate of 5.31%.

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

| | At or For the Year Ended December 31, | |
|---|---------------------------------------|----------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| FHLB of Chicago advances and other borrowings: | | |
| Average balance outstanding | \$ 3,461 | \$ 1,945 |
| Maximum amount outstanding at any month-end during the period | 15,000 | 5,000 |
| Balance outstanding at end of period | 5,000 | — |
| Average interest rate during the period | 5.0% | 0.0% |
| Weighted average interest rate at end of period | 4.8% | 0.0% |

As of December 31, 2023, there was \$5.0 million in outstanding borrowings with the FHLB Chicago. The Bank is eligible to borrow up to a total of \$77.2 million and \$68.6 million at December 31, 2023 and 2022, respectively, which would be collateralized by \$102.6 million and \$86.6 million of first mortgage loans under a blanket lien arrangement at December 31, 2023 and 2022, respectively. Additionally, at December 31, 2023 and 2022 we had a \$10.0 million federal funds line of credit with the BMO Harris Bank, none of which was drawn at December 31, 2023 and 2022.

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. During the year ended December 31, 2023, the total of these services was \$1.2 million. 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, 2023, we had 46 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 is a key to our future success. We continue to elevate individuals from within the organization into new roles and 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.

During the year ended December 31, 2023, as part of the strategic growth initiatives, the Bank hired a mortgage lending team of 10 individuals, operating as Oak Leaf Community Mortgage, powered by North Shore Trust and Savings. These additional employees joined the Bank between September 11, 2023 and October 2, 2023.

In an effort to continue our investment in our employees and as part of the conversion, North Shore Trust and Savings established the Employee Stock Ownership Plan ("ESOP") for its employees. Shares held in the ESOP will be released and allocated to employees on an annual basis based on the ratio of each such participant's annual compensation.

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.

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. filed 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.

Corporate Dividends-Received Deduction. NSTS Bancorp, Inc., as an affiliate of North Shore Trust and Savings, is 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 (the "DIF"), 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 FHLB 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, the Community Reinvestment Act of 1977 (the "CRA") 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 the U.S. 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 \$20.0 billion or less as of December 31, 2017. North Shore Trust and Savings has not exercised the covered savings association ("CSA") election.

A federal savings association that has exercised the CSA 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 CSA. The CSA is also subject to the same duties, restrictions, liabilities and limitations applicable to a national bank. A CSA 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 CSA 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 CSA may generally not retain any assets, subsidiaries or activities not permitted for national banks.

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

Capital Requirements. Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common 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 (known as the "leverage ratio").

EGRRCPA required the federal banking agencies, including the OCC, to establish a "community bank leverage ratio" (the "CBLR") of between 8% and 10% for institutions with assets of less than \$10.0 billion. The CBLR is the ratio of a bank's tangible Tier 1 equity capital to average total consolidated assets and is set 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 \$10.0 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. At December 31, 2023, North Shore Trust and Savings' CBLR was 24.72%.

As of December 31, 2023, North Shore Trust and Savings' capital exceeded all applicable requirements including the applicable conservation buffer.

Loans-to-One Borrower. Generally, a federal savings association, including a CSA, 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, 2023, 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. Furthermore, the current Capital Rules limit capital distributions if the institution does not hold a "capital conservation buffer" consisting of 2.5% common equity Tier 1 capital to risk-based assets above the amount necessary to meet its minimum risk-based capital requirements.

Community Reinvestment Act and Fair Lending Laws. All insured depository institutions have a responsibility under the CRA 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 CRA. A savings association's failure to comply with the provisions of the CRA 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 (the "ECOA") and the Fair Housing Act prohibit lenders from discriminating on the basis of race, creed or other prohibited factors in their lending practices. The failure to comply with the ECOA and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the U.S. Department of Justice. The CRA requires all institutions insured by the FDIC to publicly disclose their rating. North Shore Trust and Savings received an "Outstanding" CRA rating in its most recent federal examination.

On October 24, 2023, the OCC, the FDIC and the Federal Reserve Board jointly issued a final rule to revise the CRA's implementing regulations. While the final rule formally takes effect on April 1, 2024, the majority of its provisions have a compliance date of January 1, 2026. The final rule implements a revised regulatory framework that, like the current framework, is based on bank asset size and business model. Under the final rule, federal agencies will evaluate small banks (i.e., those with assets of less than \$600 million as of December 31 in either of the prior two calendar years), such as North Shore Trust and Savings, under either the current small bank test, referred to in the final rule as the Small Bank Lending Test or, at the Bank's option, the new "Retail Lending Test," however, banks of all sizes will maintain the option to elect to be evaluated under a strategic plan with the final rule updating the standards for obtaining approval for such plan. The new Retail Lending Test evaluates a bank's record of helping to meet the credit needs of its community through the origination and purchase of home mortgage, multifamily, small business, small farm and, in certain cases, automobile loans. For small banks that opt to be evaluated under the Retail Lending Test, the agencies will evaluate the distribution of the bank's major product lines in its facility-based assessment areas and any outside retail lending area, if applicable. For each applicable performance test, the agencies will assign conclusions reflecting the bank's performance in its facility-based assessment areas, and in the case of the new Retail Lending Test, the agencies will assign one of five conclusions to the bank: "Outstanding;" "High Satisfactory;" "Low Satisfactory;" "Needs to Improve;" or "Substantial Noncompliance." For small banks evaluated under the current Small Bank Lending Test, the agencies will assign one of four conclusions: "Outstanding;" "Satisfactory;" "Needs to Improve;" or "Substantial Noncompliance." At this time, we are unable to determine what impact, if any, the CRA reform may have on the operations of North Shore Trust and Savings.

Small Business Lending Rule. On March 30, 2023, the Consumer Finance Protection Bureau (the "CFPB") issued a final rule amending Regulation B, the implementing regulation of the ECOA, to implement section 1071 of the Dodd-Frank Act. Consistent with section 1071, covered financial institutions are required to collect and report to the CFPB data on applications for credit for small businesses, including those that are owned by women or minorities. The rule also addresses the CFPB's approach to privacy interests and the publication of section 1071 data, shielding certain demographic data from underwriters and other persons, recordkeeping requirements and enforcement provisions. Compliance with the small business lending rule beginning October 1, 2024 is required for covered financial institutions that originate the most covered credit transactions for small businesses (i.e., at least 2,500 covered originations in both 2022 and 2023). However, institutions with a moderate transaction volume (i.e., at least 500 but less than 2,500 covered originations in both 2022 and 2023) have until April 1, 2025 to begin complying with the rule and those with the lowest volume (i.e., at least 100 but less than 500 covered originations in both 2022 and 2023) have until January 1, 2026. North Shore Trust and Savings has less than 100 covered originations in both 2022 and 2023, and therefore is not yet subject to comply.

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 its implementing Regulation W. 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. is 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 restrictions, including limits on various types of loans.

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 actions by the OCC may range from the issuance of a capital directive, formal agreement or cease and desist order against institutions, and can also include the removal of officers and/or directors of the institution. The OCC can appoint receivers and/or conservators for the institutions it supervises if certain circumstances are met. Civil penalties can be assessed for various types of conduct against the institution and/or its officers and directors. The maximum civil money penalties that can be assessed are generally based on the type and severity of the violation, unsafe and unsound practice or other action, and are adjusted annually for inflation. 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 by the OCC, the FDIC has authority to take 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 CSA 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% or greater, a Tier 1 risk-based capital ratio of 8% or greater, a leverage ratio of 5% 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% or greater, a Tier 1 risk-based capital ratio of 6% or greater, a leverage ratio of 4% 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%, a Tier 1 risk-based capital ratio of less than 6%, a leverage ratio of less than 4% 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%, a Tier 1 risk-based capital ratio of less than 4%, a leverage ratio of less than 3% or a common equity Tier 1 ratio of less than 3%. 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%.

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% 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, 2023, North Shore Trust and Savings met the criteria for being considered “well-capitalized.”

Insurance of Deposit Accounts. The DIF 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 DIF.

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.

On November 16, 2023, the FDIC approved a final rule to implement a special assessment on certain banking organizations with financial institution subsidiaries with more than \$5 billion in assets, in order to recover the costs associated with protecting uninsured depositors following the closures of Silicon Valley Bank and Signature Bank in March 2023. The special assessment will be collected beginning with the first quarterly assessment period of 2024 at an annual rate of approximately 13.4 basis points for an anticipated total of eight quarterly periods and is subject to periodic adjustments. The assessment base is equal to uninsured deposits reported as of December 31, 2022, adjusted to exclude the first \$5 billion. Because North Shore Trust and Savings' uninsured deposits at the measurement date were below \$5 billion, North Shore Trust and Savings will not be subject to this special assessment.

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 (the "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.

In November 2021, the federal regulators finalized a rule concerning notification requirements for banks related to significant computer security incidents. Under the final rule, a bank or its holding company is required to notify its applicable federal banking regulators within 36 hours of incidents that have materially disrupted or degraded, or are reasonably likely to materially disrupt or degrade, the banking organization's ability to deliver services to a material portion of its customer base, jeopardize the viability of key operations of the organization, or impact the stability of the financial sector. The rule was effective April 1, 2022 and compliance was required as of May 1, 2022.

In March 2022, the Cyber Incident Reporting for Critical Infrastructure Act of 2022 ("CIRCIA") was signed into law. The enactment of CIRCIA requires the U.S. Department of Homeland Security's Cybersecurity and Infrastructure Security Agency (the "CISA") to develop and implement regulations requiring covered entities to report covered cyber incidents and ransomware payments to the CISA in an effort to better equip the CISA to provide resources and assistance to victims suffering attacks and share information necessary to warn other potential victims. In part, CIRCIA requires the CISA to develop and issue regulations requiring covered entities to report to the CISA within 72 hours from the time an entity reasonably believes a covered cyber incident occurred and within 24 hours of making any ransom payments made as a result of a ransomware attack. The CISA is required to complete mandatory rulemaking activities before the reporting requirements go into effect. It is possible, but not yet confirmed, that banks could be subject to CIRCIA.

Anti-Money Laundering and the USA PATRIOT Act. North Shore Trust and Savings is subject to the Bank Secrecy Act (the "BSA") and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "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 U.S. Department of the Treasury (the "U.S. Treasury"), 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 BSA. North Shore Trust and Savings otherwise has implemented policies and procedures to comply with the foregoing requirements.

The U.S. Treasury's Office of Foreign Assets Control ("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 the U.S. 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, the U.S. Congress passed the Corporate Transparency Act (the "CTA") 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 ("BOI") 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 \$5.0 million or less) to report BOI to FinCEN (which will be maintained by 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 U.S. Treasury or the U.S. Attorney General resulting in monetary sanctions exceeding \$1.0 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 the People's Republic of China, the Russian Federation or certain other jurisdictions) for the purpose of combating illicit finance risks; and (v) expanded duties and enforcement powers for FinCEN. Many of the amendments, including those with respect to beneficial ownership, require FinCEN to promulgate rules.

On September 29, 2022, FinCEN finalized the first of three proposed rules to implement changes to the beneficial ownership requirements and related amendments set forth in the CTA. The final rule prescribes which corporate entities created in or registered to do business in the U.S. will be required to report BOI directly to FinCEN. The first rule is effective and compliance is required as of January 1, 2024, however, reporting companies created or registered prior to that date will have until January 1, 2025 to file their initial reports with FinCEN.

On December 21, 2023, FinCEN finalized the second of the three proposed rules which allows for FinCEN, upon request, to disclose BOI to a statutorily defined group of governmental authorities and financial institutions. The second final rule identifies the entities FinCEN is allowed to provide access to BOI to include (i) federal agencies engaged in national security, intelligence or law enforcement activity; (ii) state, local and tribal law enforcement agencies with court authorization; (iii) foreign law enforcement agencies, judges, prosecutors and other authorities that meet specific criteria; (iv) U.S. Treasury personnel; (v) financial institutions using BOI in order to comply with customer due diligence ("CDD") requirements and (vi) regulators, acting in a supervisory capacity, evaluating such institutions for CDD-related compliance. The second final rule provides that such CDD requirements could include anti-money laundering and countering the financing of terrorism obligations set forth under the BSA (e.g., anti-money laundering program, customer identification, suspicious activity reports filing and enhanced due diligence requirements) and compliance with the OFAC sanctions. This rule provides that FinCEN may disclose BOI to an authorized financial institution provided that such institution has developed and implemented administrative, technical, and physical safeguards reasonably designed to protect the information and has received the relevant reporting company's consent to such disclosure. The second final rule is effective February 20, 2024.

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;
- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- 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;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection 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 FHLB System, which consists of 11 regional FHLBs. Each FHLB 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 FHLB. North Shore Trust and Savings was in compliance with this requirement as of December 31, 2023 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, 2023, 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 DIF, 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.

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. We have established policies, procedures and systems designed to comply with the Sarbanes-Oxley Act of 2002 and its implementing regulations, and we review and document such policies, procedures and systems to ensure continued compliance.

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 following its initial public offering in 2022, or until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed \$1.235 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 \$700.0 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. 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 1C. Cybersecurity

NSTS Bancorp, Inc. relies extensively on various information systems and other electronic resources to operate our business. In addition, nearly all of our customers, service providers and other business partners on whom we depend, including the providers of our online banking, mobile banking, and accounting systems, use their own information systems and electronic resources. Any of these systems can be compromised, including through the employees, customers, and other individuals who are authorized to use them, and bad actors who use a sophisticated and constantly evolving set of software, tools, and strategies to do so. Moreover, the nature of our business, as a financial services provider, make us and our business partners high-value targets for these bad actors to pursue.

Accordingly, we have devoted significant resources to assessing, identifying and managing risks associated with cybersecurity threats, including:

- internal regular assessments of our information systems, existing controls, vulnerabilities and potential improvements;
- continuous monitoring tools that can detect and help respond to cybersecurity threats in real-time;
- performing due diligence with respect to our third-party service providers, including their cybersecurity practices, and requiring contractual commitments from our service providers to take certain cybersecurity measures;
- third-party cybersecurity consultants, who conduct periodic penetration testing, vulnerability assessments and other procedures to identify potential weaknesses in our systems and processes; and
- periodic cybersecurity training for our workforce.

This information security program is a key part of our overall risk management system, which is administered by our AVP Information Technology. The program includes administrative, technical and physical safeguards to help ensure the security and confidentiality of customer records and information. These security and privacy policies and procedures are in effect across the Bank and each of its locations. The AVP Information Technology reports directly to the Board of Directors on a quarterly, or more frequently if necessary, basis.

We face a number of cybersecurity risks in connection with our business. From time-to-time, we have identified cybersecurity threats that require us to make changes to our processes and to implement additional safeguards. While none of these identified threats have materially affected us, it is possible that threats and incidents we identify in the future could have a material adverse effect on our business, results of operations, and financial condition.

Item 2. Properties

We currently conduct business from our main office, two full-service branch offices and three loan production offices. 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, 2023.

| Description/Address | Net Book Value of Property (Dollars in thousands) | Amount of Deposits |
|--|---|-----------------------|
| Main Office: | | |
| 700 S. Lewis Avenue, Waukegan, Illinois 60085 | \$ 823 | \$ 106,529 |
| Branch Offices: | | |
| 1233 N. Green Bay Road, Waukegan, Illinois 60085 | 1,040 | 39,610 |
| 3060 W. Sand Lake Road, Lindenhurst, Illinois 60046 | 3,316 | 22,687 |
| Total | \$ 5,179 | \$ 168,826 |
| Loan Production Offices: | | |
| 2149 W. Roscoe Street, Chicago, Illinois 60618 (1) | N/A | N/A |
| 75 Executive Dr, Aurora, Illinois 60504 (2) | N/A | N/A |
| 24252 West Main Street, Plainfield, Illinois 60544 (2) | 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, 2023 and was not renewed. A new lease was signed for 875 N. Michigan Ave, Chicago, IL 60611 which is set to expire in December 2024.

(2) The loan production offices are leased by North Shore Trust and Savings and do not accept deposits. The leases are short-term in nature and expire in 12-24 months.

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 25, 2024, there were 5,585,159 shares of our common stock issued and 5,315,261 shares outstanding, which were held by approximately 229 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 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".

Issuer Purchases of Securities

On March 29, 2023, the Company adopted a program to repurchase up to 269,898 shares, or 5%, of its then outstanding common stock. The original program expired on September 29, 2023 and was extended with a new expiration date of September 30, 2024, unless terminated earlier. As of October 30, 2023, the Company had completed the share repurchase program, repurchasing a total of 269,898 shares for approximately \$2.4 million at an average cost of \$8.82 per share.

Effective December 21, 2023, the Company's Board of Directors authorized a new share repurchase program that authorizes the Company to repurchase up to an aggregate of 265,763 shares, or 5%, of its then outstanding common stock. The program will be in effect until December 31, 2024, unless earlier terminated. Under the new share repurchase program, the Company is authorized to repurchase shares from time to time in the open market or negotiated transactions at prevailing market rates, or by other means in accordance with federal securities laws. In connection with the share repurchase program, the Company intends to implement a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1 under the Securities Exchange Act. The trading plan will allow the Company to repurchase shares of its common stock at times when it otherwise might have been prevented from doing so under insider trading laws by requiring that an agent selected by the Company repurchase shares of common stock on the Company's behalf on pre-determined terms.

The following table sets forth information about the Company's purchases of its common stock during the three months ended December 31, 2023. There were no repurchases during the months ended November 30, 2023 and December 31, 2023.

| | (a) | (b) | (c) | (d) |
|------------------------------|--------------------------------------|------------------------------|--|---|
| | Total number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased As part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet to be Purchased Under the Plans or Programs (1) |
| Period | | | | |
| October 1 - October 31, 2023 | 117,217 | \$ 8.75 | 117,217 | — |
| Total | 117,217 | \$ 8.75 | 117,217 | — |

(1) On March 29, 2023, the Company adopted a program to repurchase up to 269,898 shares, or 5%, of its then outstanding common stock. The original program expired on September 29, 2023 and was extended with a new expiration date of September 30, 2024, unless terminated earlier. As of October 30, 2023, the Company had repurchased all of the shares remaining available to be repurchased pursuant to the terms of the then existing stock repurchase program.

There were no unregistered sales of NSTS Bancorp, Inc.'s common stock during the year ended December 31, 2023.

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 NSTS Bancorp, Inc. and North Shore Trust and Savings for the years ended December 31, 2023 and 2022. 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 three loan production offices in Chicago, Plainfield and Aurora, Illinois. 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, 2023, we had total assets of \$256.8 million, including \$120.6 million in net loans and \$82.1 million of securities available for sale, total deposits of \$168.8 million and total equity of \$77.5 million. For the year ended December 31, 2023, we had a net loss of \$4.0 million compared to net income of \$27,000 for the year ended December 31, 2022.

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

Critical Accounting Policies

In reviewing and understanding financial information for NSTS Bancorp, Inc., 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 included within 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.

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

The Employee Retention Credit of \$503,000 was recorded during the second quarter of 2022, when the Bank determined it was eligible. The credit is recorded as other non-interest income and offsets \$503,000 of salaries and employee benefits expense previously recorded during 2021. Subsequent to December 31, 2022, the Bank has received \$259,000 of the Employee Retention Credit, which represents the tax credit for the quarter ended June 30, 2021. The Bank cannot reasonably estimate when it will receive the remaining refunds. A receivable is recorded in other assets on the consolidated balance sheets to reflect the remaining amount of the credit yet to be received. The CARES Act and related Employee Retention Credit was terminated as of September 30, 2021, and therefore the Company does not expect to file for any additional refunds.

Allowance for Credit Losses. Determining the allowance for loan and lease losses has historically been identified as a critical accounting policy. On January 1, 2023, we adopted the new CECL accounting methodology which requires entities to estimate and recognize an allowance for lifetime expected credit losses for loans and other financial assets measured at amortized cost. Previously, an allowance for loan and lease losses was recognized based on probable incurred losses. The accounting estimates relating to the allowance for credit losses is also a “critical accounting policy” as:

- changes in the provision for credit losses can materially affect our financial results;
- estimates relating to the allowance for credit losses require us to project future borrower performance, including cash flows, delinquencies and charge-offs, along with, when applicable, collateral values, based on a reasonable and supportable forecast period utilizing forward-looking economic scenarios in order to estimate probability of default and loss given default;
- the allowance for credit losses is influenced by factors outside of our control such as industry and business trends, geopolitical events and the effects of laws and regulations as well as economic conditions such as trends in housing prices, interest rates, GDP, inflation, energy prices and unemployment; and
- considerable judgment is required to determine whether the models used to generate the allowance for credit losses produce an estimate that is sufficient to encompass the current view of lifetime expected credit losses.

Because our estimates of the allowance for credit losses involve judgment and are influenced by factors outside our control, there is uncertainty inherent in these estimates. Our estimate of lifetime expected credit losses is inherently uncertain because it is highly sensitive to changes in economic conditions and other factors outside of our control. Changes in such estimates could significantly impact our allowance and provision for credit losses. See Note 1 – *Basis of Presentation and Changes in Significant Accounting Policies* in the accompanying notes to the consolidated financial statements included elsewhere in this report for a discussion of our allowance for credit losses.

Comparison of Financial Condition at December 31, 2023 and December 31, 2022

| | At December 31, | |
|---|------------------------|------------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Selected Consolidated Financial Condition Data: | | |
| Total assets | \$ 256,776 | \$ 264,206 |
| Cash and cash equivalents | 31,388 | 13,147 |
| Securities available for sale | 82,135 | 121,205 |
| Federal Home Loan Bank stock | 550 | 550 |
| Loans, net | 120,623 | 103,359 |
| Total deposits | 168,826 | 178,714 |
| Other borrowings | 5,000 | — |
| Total equity | \$ 77,545 | \$ 80,542 |

General. During the first half of the year ended December 31, 2023, deposit balances decreased as a result of various large customers moving money to higher yielding accounts outside the Bank. During the second half of the year ended December 31, 2023, the Bank offered highly competitive special CDs for terms of 13 and 30 months. With the introduction of this offer, deposit balances stabilized. As a result of the overall decrease in deposits, the Bank borrowed \$5.0 million from the FHLB Chicago in June, 2023 and an additional \$10.0 million from the Federal Reserve Bank in November, 2023. Additionally, with the continued rise of market interest rates, the unrealized losses on the securities available-for-sale portfolio increased during 2023. During the fourth quarter, management repositioned the balance sheet by selling \$30.3 million in securities for a recognized loss of \$1.8 million. A portion of the funds received from the sale was used to pay down a portion of the borrowings entered into during 2023 with the remaining held primarily in cash as of December 31, 2023. During 2023, the Board approved a stock buyback program totaling 5% of the then outstanding shares. This program was completed during the fourth quarter of 2023. A second stock buyback program was approved during the fourth quarter, allowing for an additional 5% of the then outstanding shares to be repurchased. This program is expected to be completed during 2024.

Total Assets. Total assets decreased \$7.4 million to \$256.8 million as of December 31, 2023 compared to \$264.2 million at December 31, 2022. The decrease in total assets was driven by a decrease in deposits during the year. The decrease in deposits resulted in an overall reduction to cash throughout the year prior to the balance sheet repositioning. Subsequent to the balance sheet repositioning, cash and cash equivalents increased while securities available-for-sale decreased.

Cash and cash equivalents. Cash and cash equivalents increased \$18.3 million to \$31.4 million as of December 31, 2023 from \$13.1 million at December 31, 2022. The increase in cash was the result of the balance sheet repositioning described above, which resulted in proceeds of approximately \$28.5 million. A portion of the proceeds was used to repay \$10.0 million in borrowings from the Federal Reserve Bank. Additionally, during December 2023, the Bank invested approximately \$750,000 in time deposits with other financial institutions. The remaining proceeds remain in an interest-bearing deposit account with the Federal Reserve Bank. Management continues to actively monitor our liquidity position on a daily basis and maintain levels of liquid assets deemed adequate.

Time deposits with other financial institutions. Time deposits with other financial institutions decreased \$2.5 million to \$2.0 million as of December 31, 2023, compared to \$4.5 million at December 31, 2022. The decrease is due to maturities within the portfolio. Management has redeployed the maturing time deposits to higher yielding loan originations. With a portion of the proceeds of the securities sale, management invested approximately \$750,000 in time deposits with other financial institutions, with maturities of six months and a weighted average rate of 5.65%.

Securities Available for Sale. Securities available-for-sale decreased to \$82.1 million as of December 31, 2023, compared to \$121.2 million at December 31, 2022. In the fourth quarter of 2023, the Bank sold securities with a fair value of approximately \$30.3 million. During the year ended December 31, 2023, the Bank received principal and interest payments of \$8.2 million, had calls and maturities of \$4.1 million, had net premium amortization and discount accretion of \$538,000 and had a decrease in the unrealized loss on the portfolio of \$4.1 million. There were no purchases of securities available-for-sale during the year ended December 31, 2023.

As of December 31, 2023, the securities available for sale portfolio included an unrealized loss position of \$11.5 million, or 12.3% of the total book value of the portfolio. Management monitors the portfolio for credit losses and believes that the decline in value does not presently represent realized losses and is due to market volatility and increased market interest rates. While the Bank did sell securities for a loss in 2023, it does not currently intend to sell additional securities in a loss position and has the ability to hold securities through maturity with sufficient liquidity and available borrowing sources.

Loans, net. Our loans, net, increased by \$17.3 million to \$120.6 million at December 31, 2023 compared to \$103.3 million at December 31, 2022. The Bank originated \$29.4 million in loans to be held in the portfolio during the year ended December 31, 2023. Additionally, during the year ended December 31, 2023, loan principal payments and paydowns totaled \$11.2 million.

During the year ended December 31, 2023, the Bank expanded the residential mortgage lending department with the hire of the Oak Leaf Community Mortgage team. The team consists of two senior mortgage loan originators and an additional support staff of eight. Oak Leaf Community Mortgage focuses on one to four-family residential lending within the expanded Chicagoland area. During the fourth quarter of 2023, with the addition of the Oak Leaf Community Mortgage team, the Bank originated \$16.4 million in loans to be held in the portfolio with a weighted average rate of 7.50%.

As of December 31, 2023, the allowance for credit losses ("ACL") which includes the allowance for credit losses on loans, and the allowance for credit losses on off-balance sheet exposures, totaled \$1.2 million, an increase of \$176,000 from the date of adoption of ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. As of December 31, 2023, there were three loans rated substandard or watch which were individually assessed, totaling \$200,000, of which none had specific reserves. Additionally, the Bank individually assessed the largest loan in the residential construction loan portfolio, noting no specific reserve was required as of December 31, 2023.

Deposits. Total deposits decreased \$9.9 million to \$168.8 million at December 31, 2023 compared to \$178.7 million at December 31, 2022, representing a decrease of 5.5%. During the first half of 2023, deposits decreased as a result of various large customers moving money to higher yielding accounts outside the Bank. The decrease in deposits was primarily out of money market and savings accounts. During the second half of 2023, time deposits increased \$13.1 million to \$67.3 million as of December 31, 2023 compared to \$54.2 million as of June 30, 2023, as a result of special CD offers. Management continues to actively monitor the deposit balances and interest rates offered to maintain an adequate level of liquidity.

Other borrowings. During the year ended December 31, 2023, the Bank borrowed \$5.0 million from the FHLB Chicago with a term of 24 months at 4.78%. Additionally, the Bank borrowed \$10.0 million from the Federal Reserve Bank as part of the Bank Term Funding Program during the fourth quarter of 2023 with a term of 12 months at 5.31%. The Bank repaid the \$10.0 million to the Federal Reserve Bank during the fourth quarter with a portion of the proceeds from the securities sales.

Total Equity. Total equity decreased \$3.0 million to \$77.5 million at December 31, 2023 primarily due to the net loss of \$4.0 million for the year ended December 31, 2023 and the repurchase of outstanding shares. This decrease was partially offset by a decrease in the unrealized loss position on the securities available-for-sale portfolio. The decrease in the unrealized loss position of \$2.9 million is due to changes in market interest rates and the result of the recognized losses in conjunction with the balance sheet reposition transaction described above. Additionally, during 2023, the Bank began repurchasing outstanding shares as part of the Board approved share repurchase program. As of December 31, 2023, the Bank completed the repurchase program and repurchased 269,898 shares, for a total value of \$2.4 million. The Board approved a second share repurchase program during December 2023, that expires on December 31, 2024.

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, | | | | | |
|---|---------------------------------------|----------|--|-----------------------------------|----------|------------------------|
| | 2023 | | | 2022 | | |
| | Average Outstanding Balance | Interest | Average Yield/ Rate (Dollars in thousands) | Average Outstanding Balance | Interest | Average Yield/ Rate |
| Interest-earning assets: | | | | | | |
| Loans | \$ 107,438 | \$ 4,360 | 4.06% | \$ 97,714 | \$ 3,618 | 3.70% |
| Interest-bearing bank deposits | 9,805 | 348 | 3.55% | 38,061 | 259 | 0.68% |
| Time deposits with other financial institutions | 2,736 | 94 | 3.44% | 3,926 | 41 | 1.04% |
| Securities available for sale | 114,744 | 2,902 | 2.53% | 118,988 | 2,415 | 2.03% |
| Federal Home Loan Bank stock | 550 | 24 | 4.36% | 550 | 15 | 2.73% |
| Total interest-earning assets | \$ 235,273 | \$ 7,728 | 3.28% | \$ 259,239 | \$ 6,348 | 2.45% |
| Noninterest-earning assets | 21,550 | | | 21,010 | | |
| Total assets | \$ 256,823 | | | \$ 280,249 | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing demand | \$ 16,714 | \$ 9 | 0.05% | \$ 17,817 | \$ 9 | 0.05% |
| Money market | 36,875 | 226 | 0.61% | 45,328 | 96 | 0.21% |
| Savings | 45,696 | 68 | 0.15% | 48,787 | 73 | 0.15% |
| Time deposits | 56,573 | 1,033 | 1.83% | 61,414 | 586 | 0.95% |
| Total interest-bearing deposits | \$ 155,858 | \$ 1,336 | 0.86% | \$ 173,346 | \$ 764 | 0.44% |
| Other borrowings | 3,461 | 172 | 4.97% | 1,945 | — | 0.00% |
| Total interest-bearing liabilities | \$ 159,319 | \$ 1,508 | 0.95% | \$ 175,291 | \$ 764 | 0.44% |
| Noninterest-bearing liabilities | 17,896 | | | 23,038 | | |
| Total liabilities | \$ 177,215 | | | \$ 198,329 | | |
| Equity | 79,608 | | | 81,920 | | |
| Total liabilities and equity | \$ 256,823 | | | \$ 280,249 | | |
| Net interest income | | \$ 6,220 | | | \$ 5,584 | |
| Interest rate spread ⁽¹⁾ | | | 2.33% | | | 2.01% |
| Net interest-earning assets ⁽²⁾ | 75,954 | | | 83,948 | | |
| Net interest margin ⁽³⁾ | | | 2.64% | | | 2.15% |
| Average interest-earning assets to average-interest bearing liabilities | 147.67% | | | 147.89% | | |

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

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

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

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, 2023 vs. 2022 | | |
|---|--|-----------------|---------------------|
| | Increase (Decrease) Due to | | Total |
| | Volume | Rate | Increase (Decrease) |
| (Dollars in thousands) | | | |
| Interest-earning assets: | | | |
| Loans | \$ 378 | \$ 364 | \$ 742 |
| Federal funds sold and interest-bearing deposits in other banks | (314) | 403 | 89 |
| Time deposits in other banks | (16) | 69 | 53 |
| Investment securities | (89) | 576 | 487 |
| FHLB of Chicago stock | — | 9 | 9 |
| Total interest-earning assets | \$ (41) | \$ 1,421 | \$ 1,380 |
| Interest-bearing liabilities: | | | |
| Interest-bearing demand | \$ (1) | \$ 1 | \$ — |
| Money market | (21) | 151 | 130 |
| Savings | (5) | — | (5) |
| Time deposit | (50) | 497 | 447 |
| Total interest-bearing deposits | \$ (77) | \$ 649 | \$ 572 |
| Other borrowings | — | 172 | 172 |
| Total interest-bearing liabilities | \$ (77) | \$ 821 | \$ 744 |
| Change in net interest income | <u>36</u> | <u>600</u> | <u>636</u> |

Comparison of Operating Results for the Years Ended December 31, 2023 and 2022

General. During the year ended December 31, 2023, the Federal Reserve Board increased the federal funds rate 100 basis points, continuing the increases that occurred during the year ended December 31, 2022. These increases drove market rates for bonds, loans and deposits to rise. As a result of these increases, management saw increased cost of funds and an increase in the unrealized loss on securities available-for-sale. As market rates for loans continued to rise, the originations of loans slowed. During the loan origination slow down, the Bank decided to expand our mortgage lending department by hiring a mortgage lending team, operating as Oak Leaf Community Mortgage, powered by North Shore Trust and Savings. This mortgage lending team offers a variety of different products including higher yielding loans with additional upfront fees. During the year ended December 31, 2023 the Bank approved the 2023 Equity Incentive Plan to attract and retain employees. During the fourth quarter, management repositioned the balance sheet by selling approximately \$30.3 million in book value of available-for-sale investment securities with an average yield of 2.83%. The sale of these securities is designed to seek to improve the Bank's earnings going forward, beginning in fiscal year 2024, and to provide liquidity to deleverage its balance sheet. Proceeds from the sale were used to repay \$10.0 million in existing debt with a current rate of 5.31%, with the remainder deployed into cash and short-term U.S. Treasury notes with an average expected yield in excess of 5.0% and to fund additional residential loan growth and general working capital at the Bank.

For the year ended December 31, 2023, we had a net loss of \$4.0 million, compared to net income of \$27,000 for the year ended December 31, 2022. The increase in net loss is primarily the result of the balance sheet repositioning, which resulted in a loss on sale of securities of \$1.8 million and the tax expense related to the addition to the valuation allowance on the remaining portion of the deferred tax asset of \$1.0 million. Additionally, the Bank recorded a higher provision for credit losses during the year ended 2023 compared to the year ended 2022.

Net Interest Income. Net interest income increased \$636,000, or 11.4%, to \$6.2 million for the year ended December 31, 2023 compared to \$5.6 million for the year ended December 31, 2022. Our interest rate spread increased to 2.33% for the year ended December 31, 2023 from 2.01% for the same period ending December 31, 2022. Our net interest margin increased to 2.64% for the year ended December 31, 2023 from 2.15% for the same period ended December 31, 2022.

Average interest-earning assets of \$235.3 million for the year ended December 31, 2023 reflect a decrease of \$24.0 million compared to 2022. The decrease in average earning assets was driven by the refunds issued on the stock oversubscription in the prior year. The average outstanding balance of loans, net increased to \$107.4 million, an increase of \$9.7 million for the year ended December 31, 2023. Additionally, the average yield earned on those loans outstanding increased 36 basis points to 4.06% for the year ended December 31, 2023, which is the result of new originations made at higher market rates. Additionally, interest earned on securities available-for-sale increased \$487,000 on a lower average balance of securities available-for-sale of \$114.7 million, resulting in a higher average yield on securities of 2.53%. The lower average balance of securities is driven by a higher average unrealized loss on the available-for-sale investment securities as well as paydowns of the portfolio throughout the year. The increased yield on securities available-for-sale was the result of an overall increase in market rates available at the time of purchase throughout 2022.

The cost of interest-bearing deposits increased 42 basis points, to 0.86%, for the year ended December 31, 2023 compared to the year ended December 31, 2022. The net increase in our funding costs for 2023 was primarily due to a CD special offered during 2023 to attract and retain customers, as well as an increase in rates offered on money market accounts, which were increased in the fourth quarter of 2022 and the first quarter of 2023 to remain competitive with the local market and to seek to retain deposits.

During 2023, the Bank borrowed \$5.0 million from the FHLB Chicago at a rate of 4.78%, which matures in June 2025. Additionally, in November 2023, the Bank borrowed \$10.0 million from the Federal Reserve Bank of Chicago through the Bank Term Funding Program at 5.31%. During December 2023, the Bank repaid the Bank Term Funding Program borrowing with a portion of the proceeds received from the securities sale. Interest expense on other borrowings totaled \$172,000 for the year ended December 31, 2023.

Provision for (Reversal of) Credit Losses. The allowance for credit losses, including the allowance for credit losses on loans, allowance for credit losses on off-balance sheet liabilities and the allowance for credit losses on available-for-sale securities, is established through a provision for credit losses charged to earnings. Credit losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. On January 1, 2023, we adopted ASU No. 2016-13, *Financial Instruments— Credit Losses (Topic 326)*. As a result of the adoption of this new standard, we recorded a reduction to retained earnings of approximately \$279,000, which was net of the \$110,000 deferred tax asset impact stemming from adoption.

For the year ended December 31, 2023, a provision for credit losses was recorded based on the current allowance for credit loss ("ACL") assessment. The increase in ACL was not considered part of the ASU 2016-13 adoption, as these changes in the assessment of the ACL occurred after the January 1, 2023 adoption. We recorded a provision for credit losses of \$176,000 during the year ended December 31, 2023, comprised of \$168,000 in provision of credit losses to loans and \$8,000 in provision of credit losses related to unfunded commitments. The increase in the ACL is driven by an increase in loan balances throughout the year. We will continue to assess and evaluate the estimated future credit loss impact of current market conditions in subsequent reporting periods, which will be highly dependent on credit quality, macroeconomic forecasts and conditions, as well as the composition of our loan and available-for-sale securities portfolios.

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

| | For the Year Ended December 31, | |
|--|---------------------------------|----------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Noninterest income: | | |
| Gain on sale of mortgage loans | \$ 32 | \$ 106 |
| Loss on sale of securities | (1,794) | — |
| Rental income on office building | 64 | 53 |
| Service charges on deposits | 270 | 291 |
| Increase in cash surrender value of BOLI | 192 | 178 |
| Other | 86 | 608 |
| Total noninterest income | \$ (1,150) | \$ 1,236 |

Noninterest income decreased \$2.4 million for the year ended December 31, 2023 compared 2022. During 2023, the Bank sold approximately \$30.3 million in book value of lower yielding available-for-sale investment securities, generating a loss of \$1.8 million. Additionally, the gain on sale of mortgage loans decreased \$74,000, or 69.8%, to \$32,000 for the year ended December 31, 2023 compared to \$106,000 for the year ended December 31, 2022. The decrease in gain on sale of mortgages was due to a reduction in the number of loans sold, which was a strategic decision to grow the loan portfolio. With the addition of Oak Leaf Community Mortgage, the Bank anticipates selling a higher percentage of the total loans originated during 2024, resulting in higher non-interest income. Other non-interest income in 2022 included the Employee Retention Credit of \$502,000.

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

| | For the year ended December 31, | |
|----------------------------------|---------------------------------|----------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Noninterest expense: | | |
| Salaries and employee benefits | \$ 4,554 | \$ 3,846 |
| Equipment and occupancy | 739 | 658 |
| Data processing | 684 | 632 |
| Professional services | 601 | 500 |
| Advertising | 104 | 90 |
| Supervisory fees and assessments | 140 | 142 |
| Loan expenses | 117 | 86 |
| Deposit expenses | 217 | 203 |
| Director fees | 216 | 223 |
| Other | 480 | 497 |
| Total noninterest expense | \$ 7,852 | \$ 6,877 |

Noninterest expense increased \$975,000 for the year ended December 31, 2023 to \$7.9 million compared to \$6.9 million for 2022. The increase is primarily driven by an increase in salaries and employee benefits and professional services expenses. Salaries and employee benefits increased 18.4% primarily as a result of the introduction of the 2023 Equity Incentive Plan on June 15, 2023, as well as merit increases to employees and health insurance premiums. During the year ended December 31, 2023, the 2023 Equity Incentive Plan expense totaled \$519,000.

During the year ended December 31, 2023, as part of the strategic growth initiatives, the Bank hired a mortgage lending team of 10 individuals, operating as Oak Leaf Community Mortgage, powered by North Shore Trust and Savings. These additional employees joined the Bank between September 11, 2023 and October 2, 2023. Additional expenses related to salaries and benefits for these employees is anticipated during 2024. Professional services expenses increased \$101,000 for the year ended December 31, 2023 to \$601,000 compared to \$500,000 for the year ended December 31, 2022 due to an increase in legal fees and other costs associated with the implementation of the 2023 Equity Incentive Plan. Equipment and occupancy expenses increased due to necessary repairs to our buildings and parking lots. Data processing expenses increased due to the addition of new employees and their related technology onboarding during the year.

Provision for Income Tax Expense. During the year ended December 31, 2023, the Bank recorded income tax expense of \$1.0 million, consisting of \$9,000 current tax expense, \$2.1 million change in valuation allowance and \$1.2 million deferred tax benefit.

Federal net operating losses as of December 31, 2023 are \$5.0 million, of which \$1.3 million is subject to expire in 2027, the remainder does not expire. During the year ended December 31, 2023, management assessed the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing net operating losses. A significant piece of objective negative evidence evaluated is the cumulative taxable loss incurred over the four-year period ended December 31, 2023. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. On the basis of this evaluation, as of December 31, 2023, a full valuation allowance of \$2.1 million, against the net deferred tax assets has been recorded. Additionally, 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 of \$532,000 has been recorded on the related deferred tax asset.

There were no uncertain tax positions outstanding as of December 31, 2023 and 2022. As of December 31, 2023, tax years remaining open for State of Illinois and Wisconsin were 2019 through 2022. Federal tax years that remained open were 2020 through 2022. As of December 31, 2023, there were also no unrecognized tax benefits that are expected to significantly increase or decrease within the next twelve months.

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 generally 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 will be adversely affected as market rates of interest continue to 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 net portfolio value ("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, 2023 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 | \$ 58,780 | \$ (13,947) | (19.2)% | 26.4% | (3.1)% |
| 200 | 63,144 | (9,583) | (13.2)% | 27.5% | (2.0)% |
| 100 | 67,743 | (4,984) | (6.9)% | 28.5% | (1.0)% |
| Static | 72,727 | — | — | 29.5% | — |
| -100 | 75,239 | 2,512 | 3.5% | 29.6% | 0.1% |
| -200 | 77,083 | 4,356 | 6.0% | 29.4% | (0.1)% |

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, 2023.

| Change in Interest Rates in Basis Points (Rate Shock) | Net Interest Income | | \$ Change | | % Change | |
|---|------------------------|-------|-----------|-------|----------|--------|
| | (Dollars in thousands) | | | | | |
| 300bp | \$ | 5,985 | \$ | (239) | | (3.8)% |
| 200 | | 6,169 | | (55) | | (0.9)% |
| 100 | | 6,251 | | 27 | | 0.4% |
| Static | | 6,224 | | — | | 0.0% |
| -100 | | 6,025 | | (199) | | (3.2)% |
| -200 | | 5,833 | | (391) | | (6.3)% |

The table above indicates that as of December 31, 2023, 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, 2024 would be expected to decrease by \$239,000, or 3.8% to \$6.0 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 the sale and maturities of securities. We also have the ability to borrow from the FHLB of Chicago and a \$10.0 million unsecured Fed Funds facility with BMO Harris Bank. The Bank is eligible to borrow up to a total of \$72.2 million and \$68.6 million at December 31, 2023 and 2022, respectively, which would be collateralized by \$102.6 million and \$86.6 million of first mortgage loans under a blanket lien arrangement at December 31, 2023 and 2022, respectively. Additionally, we had no outstanding balance with BMO Harris Bank.

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

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by operating activities was \$431,000 and \$3.0 million for the years ended December 31, 2023 and 2022, respectively. Net cash provided by or (used in) investing activities, which consists primarily of net change in loans receivable and net change in investment securities, was \$25.0 million and \$(44.5) million for the years ended December 31, 2023 and 2022, respectively. Net cash used in financing activities, consisting primarily of the activity in deposit accounts, proceeds from the issuance of common stock and FHLB of Chicago advances, was \$7.1 million and \$67.0 million for the years ended December 31, 2023 and 2022, 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, 2023, totaled \$46.6 million. While we historically have experienced strong deposit retention, many of the new time deposits were brought in with a growth pricing strategy. As such, we expect a decrease in the time deposits as these mature during 2024. 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, 2023, 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 8% in 2020, 8.5% in 2021 and 9% in 2022, subject to a limited two quarter grace period, during which the leverage ratio cannot go 100 basis points below the then applicable threshold, and will not be required to calculate and report risk-based capital ratios. North Shore Trust and Savings' Tier 1 capital to Average Assets was 24.72% and 24.81% at December 31, 2023 and 2022, respectively.

Off-Balance Sheet Arrangements. At December 31, 2023, we had \$3.8 million of outstanding commitments to originate loans. Our total letters and lines of credit and unused lines of credit totaled \$4.1 million at December 31, 2023.

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, 2023.

| | Total Amounts Committed at December 31, 2023 | 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 | \$ 4,050 | \$ 561 | \$ 927 | \$ 247 | \$ 2,315 |
| Commitments to originate loans | 3,770 | 3,770 | — | — | — |
| Total commitments | \$ 7,820 | \$ 4,331 | \$ 927 | \$ 247 | \$ 2,315 |

Contractual Cash Obligations. The following table summarizes our contractual cash obligations at December 31, 2023.

| | Total at December 31, 2023 | Payments Due By Period | | | |
|-------------------------------|----------------------------------|------------------------|-----------|-----------|---------------|
| | | To 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| | | (Dollars in thousands) | | | |
| Time deposits | \$ 67,255 | \$ 46,637 | \$ 13,945 | \$ 6,673 | \$ — |
| Other borrowings | 5,000 | — | 5,000 | — | — |
| Total contractual obligations | \$ 72,255 | \$ 46,637 | \$ 18,945 | \$ 6,673 | \$ — |

Impact of Inflation and Changing Prices

The financial statements and related financial data presented herein 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 our 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

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," also known as Current Expected Credit Losses, or CECL. ASU 2016-13 was issued to provide financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date to enhance the decision making process. 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.

We adopted ASU 2016-13 using the current expected credit loss ("CECL") methodology for financial assets measured at amortized cost, effective January 1, 2023. Results for the periods beginning after January 1, 2023 are presented under ASU 2016-13, while prior period amounts are reported in accordance with the previously applicable accounting standards. The Company recorded a reduction to retained earnings of approximately \$279,000 upon adoption of ASU 2016-13. The transition adjustment included an increase to the allowance for credit losses on loans of \$384,000 and an increase to the allowance for credit losses on off-balance sheet credit exposure of approximately \$5,000. The transition adjustment included a corresponding increase in deferred tax assets.

The following table illustrates the impact of ASU 2016-13 adoption:

| | Allowance for credit losses as reported under ASU 2016-13 | Allowance pre-ASU 2016-13 Adoption | Impact on Allowance of ASU 2016-13 Adoption |
|--|--|---------------------------------------|---|
| (Dollars in thousands) | | | |
| Assets: | | | |
| First mortgage loans | | | |
| 1-4 family residential | \$ 916 | \$ 581 | \$ 335 |
| Multi-family | 42 | 19 | 23 |
| Commercial | 48 | 19 | 29 |
| Consumer loans | 2 | 5 | (3) |
| Allowance for credit losses for all loans | <u>\$ 1,008</u> | <u>\$ 624</u> | <u>\$ 384</u> |
| Liabilities: | | | |
| Allowance for credit losses on off-balance sheet exposures | <u>\$ 5</u> | <u>\$ —</u> | <u>\$ 5</u> |

In March 2022, FASB issued ASU 2022-02, "*Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*." The amendments in this update eliminate the accounting guidance and related disclosures for TDRs by creditors in Subtopic 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty and requiring an entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, *Financial Instruments—Credit Losses—Measured at Amortized Cost*. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and are applied prospectively, except with respect to the recognition and measurement of TDRs, where an entity has the option to apply a modified retrospective transition method. Early adoption of the amendments in this update is permitted. An entity may elect to early adopt the amendments regarding TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. As of January 1, 2023, we adopted ASU No. 2022-02, which superseded the current disclosure requirements for TDRs.

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 - Exposure to Changes in Interest Rates".

Item 8. Financial Statements and Supplementary Data

The consolidated Financial Statements, including supplemental data, of NSTS Bancorp, Inc. and its consolidated subsidiaries begins on page 47 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, 2023, 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.

Management's Annual Report on Internal Control Over Financial Reporting

Management of NSTS Bancorp, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. Internal control is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Management assessed the effectiveness of NSTS Bancorp, Inc.'s internal control over financial reporting as of December 31, 2023. This assessment was based on criteria for effective internal control over financial reporting established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our Chief Executive Officer and our Chief Financial Officer have determined that NSTS Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2023, based on the specified criteria.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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, 2023 that have materially affected, or are reasonably likely to materially affect, NSTS Bancorp, Inc.'s internal control over financial reporting.

Item 9B. Other Information

On March 27, 2024, the Board of Directors approved the amended and restated employment agreement by and among NSTS Bancorp, Inc., North Shore Trust and Savings and Stephen G. Lear. The amended and restated employment contract was revised to reflect the now current title and position of Mr. Lear of Chief Executive Officer, President and Chairman of the Board of NSTS Bancorp, Inc. and Chairman of the Board of North Shore Trust and Savings. In addition, the amended and restated employment agreement provides that upon termination of Mr. Lear's employment for any reason, other than cause, we will provide for the continuation of the welfare benefits of medical, dental or other health coverage, at the same premium cost to Mr. Lear and at the same coverage level as in effect as of the effective date of termination until the eighteen month anniversary of the effective date of termination. A copy of the amended and restated employment agreement with Mr. Lear is filed as an exhibit to this Annual Report on Form 10-K.

Additionally, on March 27, 2024, the Board of Directors approved the employment agreement by and among NSTS Bancorp, Inc., North Shore Trust and Savings and Nathan E. Walker, President and Chief Executive Officer of North Shore Trust and Savings and Executive Vice President of NSTS Bancorp, Inc. The employment agreement has an initial term of three years, which extends automatically for one additional year on each anniversary of the effective date of the agreement, so that the remaining term is again three years, unless one party gives the other party written notice of nonrenewal at least 90 days prior to the applicable anniversary date. The employment agreement provides that Mr. Walker's base salary may be increased, but not decreased, at the discretion of the Board of Directors. In addition to the base salary, the agreement provides that Mr. Walker will be eligible to receive an annual bonus as may be determined by the Board of Directors. Mr. Walker is also eligible to participate in the NSTS Bancorp, Inc. 2023 Equity Incentive Plan as well as in any additional short-term incentive compensation or long-term or equity incentive plans that may be adopted by the Board of Directors in the future. Mr. Walker is also entitled to participate in all employee benefit plans arrangements and perquisites offered to our employees and officers, and the reimbursement of reasonable business expenses incurred in the performance of his duties. We may also provide Mr. Walker with reimbursement for monthly membership dues at a country club or similar club, and other perquisites such as an automobile allowance and/or cell phone expense reimbursement as determined by the Board of Directors.

The employment agreement is terminable with or without cause by us. Mr. Walker has no right to compensation or other benefits pursuant to the employment agreement for any period after termination for cause, as defined in the agreement. In the event we terminate Mr. Walker's employment without cause or Mr. Walker voluntarily resigns for "good reason" (i.e., a "qualifying termination event"), we will pay Mr. Walker a severance payment equal to the base salary that Mr. Walker would have received had he continued employment for the remainder of the then-current term. The severance payment will be paid as salary continuation in substantially equal installments in accordance with our regular payroll practice over the remainder of the then-current term. Mr. Walker must sign a general release of claims to receive the severance payment. A "good reason" condition for purposes of the employment agreement includes a material reduction in base salary, a material adverse change in responsibilities, titles, powers or duties, relocation of Mr. Walker's principal place of employment to a location more than 25 miles from his current principal place of employment, or material breach of the employment agreement by us. In addition, the agreement provides that upon termination of Mr. Walker's employment for any reason, other than cause, we will provide for the continuation of the welfare benefits of medical, dental or other health coverage, at the same premium cost to Mr. Walker and at the same coverage level as in effect as of the effective date of termination until the eighteen month anniversary of the effective date of termination.

If a qualifying termination event occurs within 24 months following a change in control of NSTS Bancorp, Inc. or North Shore Trust and Savings, Mr. Walker would be entitled to (in lieu of the payments and benefits described in the previous paragraph) a severance payment equal to two and one-half times the sum of (i) Mr. Walker's base salary, plus (ii) the average annual bonus earned by Mr. Walker for the three (3) years immediately preceding the year in which the change in control occurs. This change in control severance will be paid in a lump sum payment. Mr. Walker must sign a general release of claims to receive the change in control severance payment. Also, upon termination of employment, Mr. Walker will be required to adhere to a one-year non-solicitation restriction set forth in his employment agreement.

The employment agreement terminates upon Mr. Walker's death, and in such event, his estate or beneficiary will be paid his accrued benefits through such date.

The foregoing description of Mr. Walker's employment agreement is a summary only, and accordingly, does not purport to be complete and is qualified in its entirety to the full text of the agreement, a copy of which is included as an exhibit to this Annual Report on Form 10-K.

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 2024 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

Set forth below is information as of December 31, 2023 regarding the Company's equity compensation plans that have been approved by shareholders. The Company has no equity-based benefit plans, other than its employee stock ownership plan, that were not approved by shareholders.

| Plan | Number of Securities to be Issued Upon Exercise of Outstanding Options and rights (1) | Weighted Average Exercise Price (2) | Number of Securities Remaining Available for Issuance Under Plan (3) |
|----------------------------|---|--|---|
| 2023 Equity Incentive Plan | 465,500 | \$ 9.36 | 74,296 |
| Total | 465,500 | \$ 9.36 | 74,296 |

(1) Consists of outstanding stock options to purchase 465,500 shares of common stock granted under the Company's stock-based compensation plans.

(2) Represents the weighted average exercise price of stock options granted in 2023.

(3) Represents the number of available shares that may be granted as stock options and other stock awards under the 2023 Equity Incentive Plan.

(b) Security Ownership of Certain Beneficial Owners

The information required by this Item is incorporated herein by reference to the section captioned "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

(c) Security Ownership of Management

The information required by this Item is incorporated herein by reference to the section captioned "Security Ownership of Certain Beneficial Owners and Management" 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," "Board Independence" and "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 Number</u> | |
|---------------------------|---|
| 2.1 | Plan of Conversion of North Shore MHC, as amended ⁽¹⁾ |
| 3.1 | Certificate of Incorporation of NSTS Bancorp, Inc. ⁽¹⁾ |
| 3.2 | Bylaws of NSTS Bancorp, Inc. ⁽¹⁾ |
| 3.3 | Amendment to Article III, Section 12 of the Bylaws of NSTS Bancorp, Inc. ⁽³⁾ |
| 4.1 | Description of NSTS Bancorp, Inc.'s securities registered under the Securities Exchange Act of 1934, as amended |
| 10.1 | Amended and Restated Employment Agreement by and among NSTS Bancorp, Inc., North Shore Trust and Savings and Stephen G. Lear dated March 27, 2024* |
| 10.2 | E mployment Agreement by and among NSTS Bancorp, Inc., North Shore Trust and Savings and Nathan E. Walker dated March 27, 2024* |
| 10.3 | Change in Control Severance Agreement by and between North Shore Trust and Savings and Carissa H. Schoolcraft dated January 18, 2022*(2) |
| 10.4 | Change in Control Severance Agreement by and between North Shore Trust and Savings and Amy L. Avakian dated January 18, 2022*(2) |
| 10.5 | Change in Control Severance Agreement by and between North Shore Trust and Savings and Christine E. Stickler dated January 18, 2022*(2) |
| 10.6 | NSTS Bancorp, Inc. 2023 Equity Incentive Plan* ⁽⁴⁾ |
| 10.7 | Form of Restricted Stock Award Grant Notice under the NSTS Bancorp, Inc. 2023 Equity Incentive Plan* ⁽⁵⁾ |
| 10.8 | Form of Stock Option Grant Notice under the NSTS Bancorp, Inc. 2023 Equity Incentive Plan* ⁽⁵⁾ |
| 21.1 | Subsidiaries of NSTS Bancorp, Inc. |
| 23.1 | Consent of Independent Registered Public Accounting Firm, Plante & Moran, PLLC |
| 24.1 | Power of Attorney (set forth on signature page) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 97.1 | Policy Concerning Recovery of Erroneously Awarded Compensation |
| 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.

(2) Filed as an exhibit to NSTS Bancorp, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (File No. 001-41232) and incorporated herein by reference.

(3) Filed as an exhibit to NSTS Bancorp, Inc.'s Current Report on Form 8-K (File No. 001-41232) filed on March 31, 2023, and incorporated herein by reference.

(4) Filed as Appendix A to the Proxy Statement for the NSTS Bancorp, Inc. annual meeting of stockholders (File No. 001-41232) filed on April 14, 2023 and incorporated herein by reference.

(5) Filed as an exhibit to NSTS Bancorp, Inc.'s Current Report on Form 8-K (File No. 001-41232) filed on June 16, 2023, and incorporated herein by reference.

Item 16. Form 10-K Summary

None.

INDEX TO CONSOLIDATED FINANCIAL STATEMENT OF NSTS BANCORP, INC.

2023 and 2022 Consolidated Annual Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of
NSTS Bancorp, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of NSTS Bancorp, Inc. and its Subsidiary (the "Company") as of December 31, 2023 and 2022, the related statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 18 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Accounting Standards Codification Topic 326, *Financial Instruments – Credit Losses (ASC 326)*. The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously acceptable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

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 28, 2024

NSTS BANCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

| | Year ended December 31, | |
|--|-------------------------|------------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Assets: | | |
| Cash and due from banks | \$ 1,000 | \$ 1,583 |
| Interest-bearing bank deposits | 30,388 | 11,564 |
| Cash and cash equivalents | 31,388 | 13,147 |
| Time deposits with other financial institutions | 1,991 | 4,477 |
| Securities available for sale | 82,135 | 121,205 |
| Federal Home Loan Bank stock (FHLB) | 550 | 550 |
| Loans held for sale | 380 | — |
| Loans, net of unearned income | 121,799 | 103,983 |
| Allowance for credit losses on loans | (1,176) | (624) |
| Loans, net | 120,623 | 103,359 |
| Premises and equipment, net | 5,285 | 5,035 |
| Accrued interest receivable | 758 | 852 |
| Bank-owned life insurance (BOLI) | 9,441 | 9,249 |
| Other assets | 4,225 | 6,332 |
| Total assets | \$ 256,776 | \$ 264,206 |
| Liabilities: | | |
| Deposits: | | |
| Noninterest bearing | \$ 12,424 | \$ 12,977 |
| Interest-bearing | | |
| Demand and NOW checking | 15,346 | 18,659 |
| Money market | 32,027 | 42,624 |
| Savings | 41,774 | 49,068 |
| Time deposits over \$250,000 | 9,975 | 8,801 |
| Other time deposits | 57,280 | 46,585 |
| Total deposits | 168,826 | 178,714 |
| Escrow deposits | 1,382 | 1,253 |
| Other borrowings | 5,000 | — |
| Accrued expenses and other liabilities | 4,023 | 3,697 |
| Total liabilities | 179,231 | 183,664 |
| Stockholders' equity: | | |
| Common stock (\$0.01 par value; 10,000,000 shares authorized; 5,315,261 and 5,397,959 shares outstanding at December 31, 2023 and December 31, 2022, respectively) | 56 | 54 |
| Treasury Stock, at cost (269,898 shares at December 31, 2023) | (2,381) | — |
| Additional paid-in capital | 50,920 | 50,420 |
| Retained earnings | 41,055 | 45,291 |
| Unallocated common shares held by ESOP | (3,882) | (4,098) |
| Accumulated other comprehensive loss, net | (8,223) | (11,125) |
| Total stockholders' equity | 77,545 | 80,542 |
| Total liabilities and stockholders' equity | \$ 256,776 | \$ 264,206 |

See accompanying notes to consolidated financial statements

NSTS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

| | Year ended December 31, | |
|--|-------------------------|--------------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Interest income: | | |
| Loans, including fees | \$ 4,360 | \$ 3,618 |
| Securities | | |
| Taxable | 2,506 | 2,013 |
| Tax-exempt | 396 | 402 |
| Federal funds sold and other | 348 | 259 |
| Time deposits with other financial institutions | 94 | 41 |
| FHLB stock | 24 | 15 |
| Total interest income | 7,728 | 6,348 |
| Interest expense: | | |
| Deposits | 1,336 | 764 |
| Other borrowings | 172 | — |
| Total interest expense | 1,508 | 764 |
| Net interest income | 6,220 | 5,584 |
| Provision for (reversal of) credit losses | 176 | (230) |
| Net interest income after provision for (reversal of) credit losses | 6,044 | 5,814 |
| Noninterest income: | | |
| Gain on sale of mortgage loans | 32 | 106 |
| Loss on sale of securities | (1,794) | — |
| Rental income on office building | 64 | 53 |
| Service charges on deposits | 270 | 291 |
| Increase in cash surrender value of BOLI | 192 | 178 |
| Other | 86 | 608 |
| Total noninterest income | (1,150) | 1,236 |
| Noninterest expense: | | |
| Salaries and employee benefits | 4,554 | 3,846 |
| Equipment and occupancy | 739 | 658 |
| Data processing | 684 | 632 |
| Professional services | 601 | 500 |
| Advertising | 104 | 90 |
| Supervisory fees and assessments | 140 | 142 |
| Loan expenses | 117 | 86 |
| Deposit expenses | 217 | 203 |
| Director fees | 216 | 223 |
| Other | 480 | 497 |
| Total noninterest expense | 7,852 | 6,877 |
| (Loss) income before income taxes | (2,958) | 173 |
| Income tax expense (benefit) | 999 | 146 |
| Net (loss) income | \$ (3,957) | \$ 27 |
| Basic and diluted (loss) earnings per share | (0.79) | 0.01 |
| Weighted average shares outstanding | 5,004,498 | 4,729,236 |

See accompanying notes to consolidated financial statements

NSTS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

| | Year ended December 31, | |
|---|-------------------------|-------------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Net (loss) income | \$ (3,957) | \$ 27 |
| Unrealized net holding gain (loss) on securities | | |
| Unrealized net holding gain (loss) on securities arising during period, net of realized loss on sales of \$1,794,000 and \$0, in the years ended December 31, 2023 and 2022, respectively | 4,058 | (15,447) |
| Tax effect | (1,156) | 4,403 |
| Other comprehensive income (loss), net of taxes | 2,902 | (11,044) |
| Comprehensive loss | \$ (1,055) | \$ (11,017) |

See accompanying notes to consolidated financial statements

NSTS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity

| | Common Shares | Common Stock | Treasury Stock | Additional Paid-In Capital | Retained earnings | Accumulated other comprehensive loss | Unallocated Common Shares Held by ESOP | Total |
|---|------------------------|-----------------|-------------------|----------------------------------|----------------------|---|--|-----------|
| | (Dollars in thousands) | | | | | | | |
| Balance at January 1, 2022 | — | \$ — | \$ — | \$ — | \$ 45,264 | \$ (81) | \$ — | \$ 45,183 |
| Net income | — | — | — | — | 27 | — | — | 27 |
| Proceeds of stock offering and issuance of common shares (net of issuance costs of \$2.5 million) | 5,290,000 | 53 | — | 49,387 | — | — | — | 49,440 |
| Issuance of common shares donated to the NSTS Charitable Foundation | 107,959 | 1 | — | 1,008 | — | — | — | 1,009 |
| Purchase of common shares by the ESOP (431,836 shares) | — | — | — | — | — | — | (4,319) | (4,319) |
| ESOP shares committed to be released | — | — | — | 25 | — | — | 221 | 246 |
| Change in net unrealized loss on securities available for sale, net | — | — | — | — | — | (11,044) | — | (11,044) |
| Balance at December 31, 2022 | 5,397,959 | \$ 54 | \$ — | \$ 50,420 | \$ 45,291 | \$ (11,125) | \$ (4,098) | \$ 80,542 |
| Cumulative impact of ASU 2016-13 | — | — | — | — | (279) | — | — | (279) |
| Net loss | — | — | — | — | (3,957) | — | — | (3,957) |
| ESOP shares committed to be released | — | — | — | (17) | — | — | 216 | 199 |
| Purchase of treasury stock from stock repurchase program | (269,898) | — | (2,381) | — | — | — | — | (2,381) |
| Compensation cost for stock options and restricted stock | — | — | — | 519 | — | — | — | 519 |
| Issuance of common shares for the restricted stock plan | 187,200 | 2 | — | (2) | — | — | — | — |
| Change in net unrealized gain on securities available for sale, net | — | — | — | — | — | 2,902 | — | 2,902 |
| Balance at December 31, 2023 | 5,315,261 | \$ 56 | \$ (2,381) | \$ 50,920 | \$ 41,055 | \$ (8,223) | \$ (3,882) | \$ 77,545 |

See accompanying notes to consolidated financial statements

NSTS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

| | Year ended December 31, | |
|--|-------------------------|------------------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (3,957) | \$ 27 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation | 266 | 267 |
| Securities amortization and accretion, net | 538 | 958 |
| Loans originated for sale | (3,738) | (8,540) |
| Proceeds from sales of loans held for sale | 3,390 | 8,750 |
| Gain on sale of mortgage loans | (32) | (106) |
| Loss on sale of securities | 1,794 | — |
| Provision for (reversal of) credit losses | 176 | (230) |
| Earnings on bank owned life insurance | (192) | (178) |
| Issuance of common shares donated to North Shore Trust and Savings Charitable Foundation | — | 1,009 |
| ESOP expense | 199 | 246 |
| Stock based compensation expense | 519 | — |
| Change in deferred income taxes | 990 | 64 |
| Net change in accrued interest receivable and other assets | 165 | 648 |
| Net change in accrued expenses and other liabilities | 313 | 74 |
| Net cash provided by operating activities | 431 | 2,989 |
| Cash flows from investing activities: | | |
| Purchases of loans, net | — | (5,357) |
| Net change in portfolio loans | (17,816) | (1,238) |
| Principal repayments on mortgage-backed securities | 8,207 | 16,165 |
| Purchases of securities available for sale | — | (59,530) |
| Maturities and calls of securities available for sale | 4,080 | 6,705 |
| Sales of securities available for sale | 28,509 | — |
| Decrease (increase) in time deposits with other financial institutions, net | 2,486 | (1,008) |
| Purchases of premises and equipment, net | (516) | (215) |
| Net cash provided by (used in) investing activities | 24,950 | (44,478) |
| Cash flows from financing activities: | | |
| Net change in deposits | (9,888) | (106,907) |
| Net change in escrow deposits | 129 | (189) |
| Repayment of FHLB advance | — | (5,000) |
| Proceeds from FHLB advance | 5,000 | — |
| Proceeds from Federal Reserve Bank - Bank Term Funding Program | 10,000 | — |
| Repayment of Federal Reserve Bank - Bank Term Funding Program | (10,000) | — |
| Purchase of treasury shares | (2,381) | — |
| Net proceeds from issuance of common shares | — | 49,440 |
| Loan to ESOP | — | (4,319) |
| Net cash used in financing activities | (7,140) | (66,975) |
| Net change in cash and cash equivalents | 18,241 | (108,464) |
| Cash and cash equivalents at beginning of period | 13,147 | 121,611 |
| Cash and cash equivalents at end of period | \$ 31,388 | \$ 13,147 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: Interest | 1,464 | 766 |

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, from the mutual to the stock form of organization, which was completed on January 18, 2022. 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. common stock began trading on January 19, 2022 on the Nasdaq Capital Market under the trading symbol "NSTS."

The Bank operates primarily in the northern suburbs of Chicago, Illinois. The Bank offers a variety of financial services to customers in the surrounding community. Financial services consist primarily of one to four-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 2023 presentation.

Employee Retention Credit

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

The Employee Retention Credit was recorded during the second quarter of 2022, when the Bank determined it was eligible. The credit is recorded as other non-interest income and offsets \$503,000 of salaries and employee benefits expense previously recorded during 2021. During 2023, the Bank has received \$259,000 of the Employee Retention Credit, which represents the tax credit for the quarter ended June 30, 2021. The Bank cannot reasonably estimate when it will receive the remaining refunds. A receivable is recorded in other assets on the consolidated balance sheets to reflect the remaining amount of the credit yet to be received. The CARES Act and related Employee Retention Credit was terminated as of September 30, 2021, and therefore the Company does not expect to file for any additional refunds.

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 credit 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.

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will sell, the security before recovery of its amortized cost basis. If either of the aforementioned criteria exists, the Company will record an ACL related to securities available-for-sale with an offsetting entry to the provision for credit losses on securities on the income statement. Losses are charged against the allowance when management believes the available-for-sale security is uncollectible or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale securities, totaling \$351,000 as of December 31, 2023, is excluded from the estimate of credit losses. If either of these criteria does not exist, the Company will evaluate the securities individually to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors, such as market interest rate fluctuations.

In evaluating securities available-for sale for potential impairment, the Company considers many factors, including the financial condition and near-term prospects of the issuer, which for debt securities considers external credit ratings and recent downgrades; and its ability and intent to hold the security for a period of time sufficient for a recovery in value. The Company also considers the extent to which the securities are issued by the federal government or its agencies, and any guarantee of issued amounts by those agencies. The amount of the impairment related to other factors is recognized in other comprehensive income (loss).

Prior to the adoption of ASU No. 2016-13 (CECL) on January 1, 2023, the Company evaluated its available-for-sale securities in accordance with the methodology specified in the preceding paragraph except that the credit portion of the impairment would reduce the amortized cost basis of the security.

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 at December 31, 2023 and 2022 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 one to four-family, construction, 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 credit losses on loans, 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 Credit Losses

The allowance for credit losses ("ACL") is an estimate of the expected credit losses on the loans held for investment, unfunded loan commitments, and available-for-sale debt securities portfolios.

Allowance for Credit Losses on Loans

The ACL is calculated according to GAAP standards and is maintained by management at a level believed adequate to absorb estimated credit losses that are expected to occur within the existing loan portfolio through their contractual terms. The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on loans. Determination of the ACL is inherently subjective in nature since it requires significant estimates and management judgment, and includes a level of imprecision given the difficulty of identifying and assessing the factors impacting loan repayment and estimating the timing and amount of losses. While management utilizes its best judgment and information available, the ultimate adequacy of the ACL is dependent upon a variety of factors beyond the Company's direct control, including, but not limited to, the performance of the loan portfolio, consideration of current economic trends, changes in interest rates and property values, estimated losses on pools of homogeneous loans based on an analysis that uses historical loss experience for prior periods, portfolio growth and concentration risk, management and staffing changes, the interpretation of loan risk classifications by regulatory authorities and other credit market factors. While each component of the ACL is determined separately, the entire balance is available for the entire loan portfolio.

The ACL methodology consists of measuring loans on a collective (pool) basis when similar risk characteristics exist. The Company has identified five loan portfolios and measures the ACL using the Scaled CECL Allowance for Losses Estimator ("SCALE") method. The loan portfolios are one to four-family residential real estate, commercial real estate, multi-family real estate, construction and consumer. The SCALE method uses publicly available data from Schedule RI-C of the Call Report to derive the initial proxy expected lifetime loss rates. These proxy expected lifetime loss rates are then adjusted for bank-specific facts and circumstances to arrive at the final ACL estimate that adequately reflects the Company's loss history and credit risk within our portfolio.

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.

Construction lending is generally originated with a loan-to-value ratio, based on the estimated cost to construct, less than or equal to 80%. Additionally, the construction loan terms generally include interest only payments for the first 18 months. The overall costs of construction, building material supply chain and health of the economy, including housing prices, will have an effect on the credit quality in this segment.

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.

The qualitative factors applied to each loan portfolio consist of the impact of other internal and external qualitative and credit market factors as assessed by management through a detailed loan review, ACL analysis and credit discussions. These internal and external qualitative and credit market factors include:

- changes in lending policies and procedures, including changes in underwriting standards and collections, charge-offs and recovery practices;
- changes in international, national, regionally and local conditions;
- changes in the experience, depth and ability of lending management;
- changes in the volume and severity of past due loans and other similar loan conditions;
- changes in the nature and volume of the loan portfolio and terms of loans;
- the existence and effect of any concentrations of credit and changes in the levels of such concentrations;
- effects of other external factors, such as competition, legal or regulatory factors, on the level of estimated credit losses;
- changes in the quality of our loan review functions; and
- changes in the value of underlying collateral for collateral dependent loans.

The impact of the above listed internal and external qualitative and credit market risk factors is assessed within predetermined ranges to adjust the ACL totals calculated.

In addition to the pooled analysis performed for the majority of our loan and commitment balances, we also review those loans that have collateral dependency or nonperforming status which requires a specific review of that loan, per our individually analyzed CECL calculations.

Loans are charged off against the ACL when management believes the uncollectibility of a loan balance is confirmed, while recoveries of amounts previously charged-off are credited to the ACL. Approved releases from previously established ACL reserves authorized under our ACL methodology also reduce the ACL. Additions to the ACL are established through the provision for credit losses on loans, which is charged to expense.

The Company's ACL methodology is intended to reflect all loan portfolio risk, but management recognizes the inability to accurately depict all future credit losses in a current ACL estimate, as the impact of various factors cannot be fully known. Accrued interest receivable on loans, totaling \$392,000 as of December 31, 2023, is excluded from the amortized cost basis of financing receivables for the purpose of determining the allowance for credit losses.

Allowance for Credit Losses on Unfunded Loan Commitments

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk by a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL related to off-balance sheet credit exposures, which is within other liabilities on the Company's Consolidated Balance Sheet, is estimated at each balance sheet date under the CECL model, and is adjusted as determined necessary through the provision for credit losses on the statement of operations. The estimate for ACL on unfunded loan commitments includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Prior to the implementation of ASU No. 2016-13 (CECL) on January 1, 2023, the allowance for credit losses was subject to the guidance included in ASC 310 and ASC 450. Under that guidance, the Company was required to use an incurred loss methodology to estimate credit losses that were estimated to be incurred in the loan portfolio and that could ultimately materialize into confirmed losses in the form of charge-offs. The incurred loss methodology was a backward-looking approach to loss recognition and based on the concept of a triggering event having taken place, causing a loss to be inherent within the portfolio. Additionally, loans that were identified as impaired under the definition of ASC 310, were required to be assessed on an individual basis. The allowance for credit losses and resulting provision expense levels for comparative periods presented were estimated in accordance with these requirements.

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.

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 credit 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.

Stock Based Compensation

The Company maintains an equity incentive plan under which restricted stock and stock options may be granted to employees and directors, see Note 12.

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards in accordance with ASC 718, "Compensation-Stock Compensation". The Company estimates the per share fair value of option grants on the date of grant using the Black-Scholes option pricing model using assumptions for the expected dividend yield, expected stock price volatility, risk-free interest rate and expected option term. These assumptions are subjective in nature, involve uncertainties and, therefore, cannot be determined with precision. The Black-Scholes option pricing model also contains certain inherent limitations when applied to options that are not traded on public markets.

The per share fair value of options is highly sensitive to changes in assumptions. In general, the per share fair value of options will move in the same direction as changes in the expected stock price volatility, risk-free interest rate and expected option term, and in the opposite direction as changes in the expected dividend yield. For example, the per share fair value of options will generally increase as expected stock price volatility increases, risk-free interest rate increases, expected option term increases and expected dividend yield decreases. The use of different assumptions or different option pricing models could result in materially different per share fair values of options.

The Company recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite service period of the awards. The Company's accounting policy is to recognize forfeitures as they occur. Forfeited shares are added back to the pool of shares available for future grants.

Employee Stock Ownership Plan

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

Treasury Stock

Treasury stock acquired is recorded at cost and is carried as a reduction of stockholders' equity in the Consolidated Balance Sheets. Treasury stock issued is valued based on the "last in, first out" inventory method. The difference between the consideration received upon issuance and the carrying value is charged or credited to additional paid-in capital.

Earnings per Share

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

Note 2: Securities

The amortized cost and estimated fair value of debt securities at December 31, 2023 and 2022, 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, 2023 | U.S. Treasury | U.S. government agency obligations | Municipal obligations | Mortgage- backed residential obligations | Collateralized mortgage obligations | Total available-for- sale |
|-------------------------------|--------------------------|---|----------------------------------|---|--|--|
| (Dollars in thousands) | | | | | | |
| 1 year or less | \$ 2,973 | \$ — | \$ 1,292 | \$ — | \$ — | \$ 4,265 |
| 1 to 5 years | — | 4,769 | 1,461 | 8,976 | 12,919 | 28,125 |
| 5 to 10 years | — | 4,337 | 882 | 19,777 | 9,756 | 34,752 |
| After 10 years | — | — | 9,935 | 1,598 | 3,460 | 14,993 |
| Fair value | \$ 2,973 | \$ 9,106 | \$ 13,570 | \$ 30,351 | \$ 26,135 | \$ 82,135 |
| Gross unrealized gains | — | — | 1 | — | — | 1 |
| Gross unrealized losses | (22) | (1,128) | (1,882) | (4,533) | (3,938) | (11,503) |
| Amortized cost | \$ 2,995 | \$ 10,234 | \$ 15,451 | \$ 34,884 | \$ 30,073 | \$ 93,637 |

| December 31, 2022 | U.S. Treasury | U.S. government agency obligations | Municipal obligations | Mortgage- backed residential obligations | Collateralized mortgage obligations | Total available-for- sale |
|-------------------------------|--------------------------|---|----------------------------------|---|--|--|
| (Dollars in thousands) | | | | | | |
| 1 year or less | \$ 2,433 | \$ 1,007 | \$ 528 | \$ — | \$ — | \$ 3,968 |
| 1 to 5 years | 4,855 | 11,511 | 5,394 | 20,033 | 22,809 | 64,602 |
| 5 to 10 years | — | 8,872 | 2,655 | 15,046 | 11,848 | 38,421 |
| After 10 years | — | — | 11,060 | 659 | 2,495 | 14,214 |
| Fair value | \$ 7,288 | \$ 21,390 | \$ 19,637 | \$ 35,738 | \$ 37,152 | \$ 121,205 |
| Gross unrealized gains | — | — | 6 | — | — | 6 |
| Gross unrealized losses | (155) | (1,870) | (2,972) | (5,464) | (5,105) | (15,566) |
| Amortized cost | \$ 7,443 | \$ 23,260 | \$ 22,603 | \$ 41,202 | \$ 42,257 | \$ 136,765 |

As of December 31, 2023 and 2022, no securities were pledged to secure public deposits or for other purposes as required or permitted by law. At December 31, 2023 and 2022, 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 equity.

Information pertaining to securities with gross unrealized losses at December 31, 2023 and 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

| December 31, 2023 | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|----------------------------|------------------------------|----------------------------|------------------------------|-----------------------|------------------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| (Dollars in thousands) | | | | | | |
| U.S. Treasuries | \$ — | \$ — | \$ 2,973 | \$ 22 | \$ 2,973 | \$ 22 |
| U.S. government agency obligations | — | — | 9,106 | 1,128 | 9,106 | 1,128 |
| Municipal obligations | 279 | 1 | 12,796 | 1,881 | 13,075 | 1,882 |
| Mortgage-backed residential obligations | — | — | 30,351 | 4,533 | 30,351 | 4,533 |
| Collateralized mortgage obligations | — | — | 26,135 | 3,938 | 26,135 | 3,938 |
| Total | \$ 279 | \$ 1 | \$ 81,361 | \$ 11,502 | \$ 81,640 | \$ 11,503 |
| December 31, 2022 | | | | | | |
| U.S. Treasuries | \$ 7,288 | \$ 155 | \$ — | \$ — | \$ 7,288 | \$ 155 |
| U.S. government agency obligations | 17,274 | 1,296 | 4,116 | 574 | 21,390 | 1,870 |
| Municipal obligations | 16,823 | 2,349 | 2,037 | 623 | 18,860 | 2,972 |
| Mortgage-backed residential obligations | 14,365 | 1,618 | 21,373 | 3,846 | 35,738 | 5,464 |
| Collateralized mortgage obligations | 21,449 | 2,014 | 15,703 | 3,091 | 37,152 | 5,105 |
| Total | \$ 77,199 | \$ 7,432 | \$ 43,229 | \$ 8,134 | \$ 120,428 | \$ 15,566 |

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At December 31, 2023 and 2022, certain investment securities were in unrealized loss positions. There were no securities with identified credit losses at December 31, 2023, and no securities with other than temporary impairment losses at December 31, 2022. Unrealized losses have not been recognized into income because, based on management's evaluation, the decline in fair value is largely due to increased market rates, temporary market conditions and trading spreads, and, as such, are considered to be temporary by the Bank. In addition, management has the intent and ability to hold the securities until they mature or they recover their carrying values.

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

The Bank holds two classifications of municipal bonds, general obligation bonds and revenue bonds. General obligation bonds are backed by the general revenue of the issuing municipality, while revenue bonds are supported by a specific revenue source. All general obligation and revenue bonds have a bond rating of investment grade by Standard and Poor's or Moody's Investor Services or are not rated. There have been no declines in investment grade ratings on bonds in a loss position and as of December 31, 2023, all municipal bonds are paying as agreed.

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, | |
|--|-------------------------------|-------------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Sales of securities available for sale | \$ 28,509 | \$ — |
| Gross gain realized on the sale of securities available for sale | — | — |
| Gross loss realized on the sale of securities available for sale | (1,794) | — |

Note 3: Loans

A summary of loans by major category as of December 31, 2023 and 2022 is as follows:

| | December 31, 2023 | December 31, 2022 |
|--------------------------------------|-------------------------------|------------------------------|
| | (Dollars in thousands) | |
| First mortgage loans | | |
| 1-4 family residential | \$ 111,081 | \$ 95,584 |
| Multi-family | 3,111 | 3,237 |
| Commercial | 3,835 | 3,921 |
| Construction | 2,508 | — |
| Total first mortgage loans | 120,535 | 102,742 |
| Consumer loans | 248 | 249 |
| Total loans | 120,783 | 102,991 |
| Net deferred loan costs | 1,016 | 992 |
| Allowance for credit losses on loans | (1,176) | (624) |
| Total loans, net | \$ 120,623 | \$ 103,359 |

First mortgage loans serviced for others are not included in the accompanying Consolidated Balance Sheets. The unpaid principal balance of these loans totaled \$13.2 million and \$13.7 million at December 31, 2023 and 2022, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were \$231,000 at December 31, 2023 and 2022.

In the normal course of business, loans are made by the Bank to directors and officers of the Company and the Bank (related parties). The terms of these loans, including interest rate and collateral, are similar to those prevailing for comparable transactions with other customers and do not involve more than a normal risk of collectability. At December 31, 2023 and 2022, such borrowers were indebted to the Bank in the aggregate amount of \$550,000 and \$597,000, respectively.

Note 4: Allowance for Credit Losses

The following tables present the activity in the allowance for credit losses and allowance for loan losses for the years ended December 31, 2023 and 2022:

| | December 31, 2023 | | | | | |
|---|---------------------------|--------------|------------|--------------|----------|----------|
| | 1-4 family residential | Multi-family | Commercial | Construction | Consumer | Total |
| | (Dollars in thousands) | | | | | |
| Year ended: | | | | | | |
| Beginning balance | \$ 581 | \$ 19 | \$ 19 | \$ — | \$ 5 | \$ 624 |
| Cumulative effect of change in accounting principle | 335 | 23 | 29 | — | (3) | 384 |
| Charge-offs | — | — | — | — | — | — |
| Recoveries | — | — | — | — | — | — |
| Net recoveries (charge-offs) | — | — | — | — | — | — |
| Provision for (release of) credit losses | 178 | (2) | (11) | 4 | (1) | 168 |
| Ending balance | \$ 1,094 | \$ 40 | \$ 37 | \$ 4 | \$ 1 | \$ 1,176 |

| | December 31, 2022 | | | | | |
|------------------------|---------------------------|--------------|------------|----------|--------|--|
| | 1-4 family residential | Multi-family | Commercial | Consumer | Total | |
| | (Dollars in thousands) | | | | | |
| Year ended: | | | | | | |
| Beginning balance | \$ 675 | \$ 69 | \$ 25 | \$ 10 | \$ 779 | |
| Charge-offs | — | — | — | — | — | |
| Recoveries | 75 | — | — | — | 75 | |
| Net recoveries | 75 | — | — | — | 75 | |
| Release of loan losses | (169) | (50) | (6) | (5) | (230) | |
| Ending balance | \$ 581 | \$ 19 | \$ 19 | \$ 5 | \$ 624 | |

The ACL on loans excludes \$14,000 of allowance for off-balance sheet exposures as of December 31, 2023 recorded within Other Liabilities on the Consolidated Balance Sheets.

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, 2022 were as follows:

| | Collectively evaluated | | Individually evaluated | | Total | |
|--------------------------|------------------------------|------------------------------------|------------------------------|------------------------------------|------------------------------|------------------------------------|
| | Allowance for loan losses | Recorded investment in loans | Allowance for loan losses | Recorded investment in loans | Allowance for loan losses | Recorded investment in loans |
| | (Dollars in thousands) | | | | | |
| December 31, 2022 | | | | | | |
| 1-4 family residential | \$ 512 | \$ 94,711 | \$ 69 | \$ 873 | \$ 581 | \$ 95,584 |
| Multi-family | 19 | 3,237 | — | — | 19 | 3,237 |
| Commercial | 19 | 3,921 | — | — | 19 | 3,921 |
| Consumer | 5 | 249 | — | — | 5 | 249 |
| Total | \$ 555 | \$ 102,118 | \$ 69 | \$ 873 | \$ 624 | \$ 102,991 |

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

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

Pass

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

Special Mention

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

Substandard

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

Doubtful

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

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

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The following tables present the credit risk profile of the Company's loan portfolio based on risk rating category and year of origination as of December 31, 2023 and the risk rating category and class of loan as of December 31, 2022.

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

| | Pass | Special Mention | Substandard | Doubtful | Total loans |
|--------------------------|-------------------|-----------------|---------------|-------------|-------------------|
| (Dollars in thousands) | | | | | |
| December 31, 2022 | | | | | |
| 1-4 family residential | \$ 95,353 | \$ 43 | \$ 188 | \$ — | \$ 95,584 |
| Multi-family | 3,237 | — | — | — | 3,237 |
| Commercial | 3,921 | — | — | — | 3,921 |
| Consumer | 249 | — | — | — | 249 |
| Total | \$ 102,760 | \$ 43 | \$ 188 | \$ — | \$ 102,991 |

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The aging of the Bank's loan portfolio as of December 31, 2023 and 2022, is as follows:

| | 31-89 Days Past Due and Accruing | Greater than 90 Days Past Due and Accruing | Non-Accrual | Total Past Due and Non- Accrual | Current | Total Loan Balance |
|--------------------------|--|--|-------------|---------------------------------------|------------|-----------------------|
| (Dollars in thousands) | | | | | | |
| December 31, 2023 | | | | | | |
| 1-4 family residential | \$ 131 | \$ — | \$ 200 | \$ 331 | \$ 110,750 | \$ 111,081 |
| Multi-family | — | — | — | — | 3,111 | 3,111 |
| Commercial | — | — | — | — | 3,835 | 3,835 |
| Construction | — | — | — | — | 2,508 | 2,508 |
| Consumer | — | — | — | — | 248 | 248 |
| Total | \$ 131 | \$ — | \$ 200 | \$ 331 | \$ 120,452 | \$ 120,783 |
| December 31, 2022 | | | | | | |
| 1-4 family residential | \$ 28 | \$ — | \$ 154 | \$ 182 | \$ 95,402 | \$ 95,584 |
| Multi-family | — | — | — | — | 3,237 | 3,237 |
| Commercial | — | — | — | — | 3,921 | 3,921 |
| Consumer | — | — | — | — | 249 | 249 |
| Total | \$ 28 | \$ — | \$ 154 | \$ 182 | \$ 102,809 | \$ 102,991 |

The following table presents the amortized cost basis of loans on nonaccrual status recorded at December 31, 2023 and 2022.

| | December 31, 2023 | | December 31, 2022 |
|------------------------|--|------------|-------------------|
| | Nonaccrual with no Allowance for Credit Losses | Nonaccrual | Nonaccrual |
| (Dollars in thousands) | | | |
| First mortgage loans | | | |
| 1-4 family residential | \$ 200 | \$ 200 | \$ 154 |
| Multi-family | — | — | — |
| Commercial | — | — | — |
| Construction | — | — | — |
| Consumer loans | — | — | — |
| Total loans | \$ 200 | \$ 200 | \$ 154 |

Loans individually evaluated for impairment by class of loans as of December 31, 2022 were as follows:

| | Recorded investment | Unpaid principal balance | Related allowance | Average recorded investment | Interest income recognized |
|---|------------------------|--------------------------------|----------------------|-----------------------------------|-------------------------------|
| (Dollars in thousands) | | | | | |
| December 31, 2022 | | | | | |
| With no related allowance recorded | | | | | |
| 1-4 family residential | \$ 429 | \$ 635 | \$ — | \$ 442 | \$ 29 |
| Multi-family | — | — | — | — | — |
| Commercial | — | — | — | — | — |
| Consumer | — | — | — | — | — |
| Total | \$ 429 | \$ 635 | \$ — | \$ 442 | \$ 29 |
| With a related allowance recorded | | | | | |
| 1-4 family residential | \$ 444 | \$ 444 | \$ 69 | \$ 452 | \$ 21 |
| Multi-family | — | — | — | — | — |
| Commercial | — | — | — | — | — |
| Consumer | — | — | — | — | — |
| Total | \$ 444 | \$ 444 | \$ 69 | \$ 452 | \$ 21 |
| Total individually assessed as of December 31, 2022 | \$ 873 | \$ 1,079 | \$ 69 | \$ 894 | \$ 50 |

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.

The Bank may modify loans to borrowers experiencing financial difficulty by providing modifications to repayment terms; more specifically, modifications to loan interest rates. Management performs an analysis at the time of loan modification. Any reserve required is recorded through a provision to the allowance for credit losses on loans.

As of January 1, 2023, the Company adopted ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosures*, see Note 1. There were no modifications on loans to borrowers experiencing financial difficulty during the year ended December 31, 2023. There were no new troubled debt restructurings during the year ended December 31, 2022.

Note 5: Premises and Equipment

The components of premises and equipment as of December 31, 2023 and 2022, are as follows:

| | 2023 | 2022 |
|-------------------------------|-------------------------------|-------------|
| | (Dollars in thousands) | |
| Land and improvements | \$ 2,940 | \$ 2,703 |
| Building and improvements | 7,012 | 6,768 |
| Furniture and equipment | 1,424 | 1,390 |
| Total gross equipment | 11,376 | 10,861 |
| Less accumulated depreciation | 6,091 | 5,826 |
| Premises and equipment, net | \$ 5,285 | \$ 5,035 |

Note 6: Other Real Estate Owned

There was no other real estate owned ("OREO") at December 31, 2023 and 2022. Additionally, there was no movement in OREO during the years ended December 31, 2023 and 2022.

The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is \$64,000 as of December 31, 2023. There were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process as of December 31, 2022.

Note 7: Deposits

As of December 31, 2023, for years below ended December 31, the scheduled maturities of time deposits are as follows:

| Years Ended | Amount (Dollars in thousands) |
|-----------------|----------------------------------|
| 2024 | \$ 46,637 |
| 2025 | 10,080 |
| 2026 | 3,865 |
| 2027 | 1,696 |
| 2028 and beyond | 4,977 |
| Total | \$ 67,255 |

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, 2023 and 2022, total deposits held by directors and officers of the Company and the Bank were \$739,000 and \$724,000, respectively.

Note 8: Other Borrowings

During the year ended December 31, 2023, the Company borrowed \$5.0 million from the FHLB Chicago at a rate of 4.78% for 24 months, payable on June 20, 2025. The advance is collateralized by loans pledged to the FHLB and is payable at maturity, with a prepayment penalty if repayment is made prior to the maturity date.

Additionally, during the fourth quarter of 2023, the Company borrowed \$10.0 million from the Federal Reserve Bank of Chicago as part of the Bank Term Funding Program, at a rate of 5.31% for 12 months, payable in November 2024. The borrowing was repaid in December 2023. The borrowing was collateralized by securities pledged to the FRB and was payable at maturity with no prepayment penalty.

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

| | At or For the Year Ended December 31, | |
|---|---------------------------------------|----------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| FHLB of Chicago advances and other borrowings: | | |
| Average balance outstanding | \$ 3,461 | \$ 1,945 |
| Maximum amount outstanding at any month-end during the period | 15,000 | 5,000 |
| Balance outstanding at end of period | 5,000 | — |
| Average interest rate during the period | 5.0% | 0.0% |
| Weighted average interest rate at end of period | 4.8% | 0.0% |

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

| | December 31, 2023 | December 31, 2022 |
|-------------------------------|------------------------|----------------------|
| | (Dollars in thousands) | |
| Outstanding advances | \$ 5,000 | \$ — |
| Additional borrowing capacity | 72,200 | 68,586 |
| Total borrowing capacity | \$ 77,200 | \$ 68,586 |

The eligible borrowings are collateralized by \$102.6 million and \$86.6 million of first mortgage loans under a blanket lien arrangement at December 31, 2023 and 2022, respectively. Additionally, at December 31, 2023 and 2022 we had a \$10.0 million federal funds line of credit with the BMO Harris Bank, none of which was drawn at December 31, 2023 and 2022.

Note 9: Income Taxes

Income tax expense for the years ended December 31, 2023 and 2022, is summarized as follows:

| | Year Ended December 31, | |
|---------------------------------|--------------------------------|---------------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Current expense (benefit) | | |
| Federal | \$ 9 | \$ (133) |
| State | — | — |
| Total current expense (benefit) | 9 | (133) |
| Deferred (benefit) expense | (1,150) | 64 |
| Change in valuation allowance | 2,140 | 215 |
| Total deferred expense | 990 | 279 |
| Total income tax expense | \$ 999 | \$ 146 |

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 are as follows:

| | Year Ended December 31, | |
|--|--------------------------------|-----------------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| (Loss) Income before income tax expense | \$ (2,958) | \$ 173 |
| Tax benefit (expense) at statutory federal rate of 21% applied to income before income tax benefit (expense) | 621 | (36) |
| State income tax benefit (expense), net of federal effect | 222 | (13) |
| Tax-exempt security and loan income, net of TEFRA adjustments | 77 | 83 |
| BOLI | 40 | 37 |
| Change in valuation allowance | (2,140) | (150) |
| Other | 181 | (67) |
| Total income tax expense | \$ (999) | \$ (146) |
| Effective tax rate | (33.8)% | (84.4)% |

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, 2023 and 2022, are as follows:

| | Year Ended December 31, | |
|--|-------------------------|----------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Deferred tax assets | | |
| Allowance for credit losses | \$ 339 | \$ 178 |
| Deferred compensation | 556 | 481 |
| Retirement plans | 181 | 55 |
| Premises held for sale impairment | 101 | 101 |
| Unrealized loss on securities available-for-sale | 3,279 | 4,435 |
| Federal net operating loss carryforwards | 1,042 | 358 |
| Other | 15 | 38 |
| State net operating loss carryforwards | 532 | 371 |
| Gross deferred tax assets | 6,045 | 6,017 |
| Valuation allowance | (2,661) | (521) |
| Net deferred tax assets | 3,384 | 5,496 |
| Deferred tax liabilities | | |
| FHLB stock dividends | (101) | (101) |
| Accumulated depreciation | (4) | (80) |
| Deferred tax liabilities | (105) | (181) |
| Net deferred tax asset | \$ 3,279 | \$ 5,315 |

The Bank does not expect the total amount of unrecognized tax benefits to change significantly in the next twelve months. Gross Federal net operating losses (NOL) as of December 31, 2023 and 2022 are \$5.0 million, and \$1.7 million, respectively. A portion of the Federal NOL, related to charitable contributions, totaling \$1.3 million, as of December 31, 2023, will expire in 2027. The remainder of the Federal NOL does not expire. During 2023, management assessed the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated is the cumulative taxable loss incurred over the four-year period ended December 31, 2023. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

On the basis of this evaluation, as of December 31, 2023, a full valuation allowance of \$2.1 million on Federal NOLs and other temporary differences, other than those arising from the unrealized loss on securities available-for-sale, has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized.

NOL carryforwards for state income tax purposes were approximately \$5.6 million and \$3.9 million at December 31, 2023 and 2022, respectively, and will begin expiring in 2024. 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 of \$532,000 has been recorded on the related deferred tax asset.

There were no uncertain tax positions outstanding as of December 31, 2023 and 2022. As of December 31, 2023, tax years remaining open for State of Illinois and Wisconsin were 2019 through 2022. Federal tax years that remained open were 2020 through 2022. As of December 31, 2023, 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, 2023, 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. The Bank elected to begin using CBLR for the first quarter of 2020. Management believes, as of December 31, 2023, 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, 2023 and 2022, are presented below:

| | Actual | | Minimum Required to be Well-Capitalized (1) | |
|------------------------------------|-----------|--------|---|-------|
| | Amount | Ratio | Amount | Ratio |
| (Dollars in thousands) | | | | |
| As of December 31, 2023 | | | | |
| Tier 1 capital (to Average Assets) | \$ 63,258 | 24.72% | \$ 23,031 | >9% |
| As of December 31, 2022 | | | | |
| Tier 1 capital (to Average Assets) | \$ 65,634 | 24.81% | \$ 23,809 | >9% |

(1) As defined by regulatory agencies. Failure to exceed the leverage ratio thresholds required under CBLR in the future, subject to any applicable grace period, would require the 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

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 \$161,000 for 2023 and \$150,000 for 2022.

As part of the conversion, North Shore Trust and Savings established the Employee Stock Ownership Plan ("ESOP") for its employees. Shares of the ESOP will be released and allocated to employees based on the ratio of each such participant's compensation. Refer to Note 12 for additional information surrounding the ESOP and related expenses.

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 2023 and 2022 was \$0.

Note 12: Stock Based Compensation

ESOP

In connection with the Bank's mutual to stock conversion in January 2022, the Bank established the North Shore Trust and Savings Employee Stock Ownership Plan ("ESOP") for all eligible employees. The ESOP purchased 431,836 shares of Company common stock in the Company's initial public offering at \$10.00 per share with the proceeds of a twenty-five (25) year loan from the Company in the amount of \$ 4.3 million. The interest rate on the ESOP loan is fixed at 3.25%. The Bank intends to make annual contributions to the ESOP that at a minimum will permit the ESOP to repay the principal and interest due on the ESOP debt. However, the Bank may prepay the principal of the note, partially or in full and without penalty or premium at any time and from time to time without prior notice to the holder. Any dividends declared on Company common stock held by the ESOP and not allocated to the account of a participant can be used to repay the loan. As the ESOP loan is repaid, shares of Company common stock pledged as collateral for the loan are released from the loan suspense account for allocation to Plan participants on the basis of each active participant's proportional share of compensation. Participants vest 100% in their ESOP allocations after five years of service. In connection with the implementation of the ESOP, participants were given credit for past service with the Bank for vesting purposes. Participants will become fully vested upon death, disability, retirement, a change in control, or termination of the ESOP. Generally, participants will receive distributions from the ESOP upon separation from service. The plan reallocates any unvested shares of common stock forfeited upon termination of employment among the remaining participants in the plan.

ESOP compensation represents the average fair market value of the shares of Company common stock allocated or committed to be released as of that date. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends, if any, on allocated shares are recorded as a reduction of retained earnings and dividends, if any, on unallocated shares are recorded as a reduction of the debt service. The ESOP compensation expense for the year ended December 31, 2023 and 2022 was \$199,000 and \$246,000

Shares held by the ESOP were as follows:

| | As of December 31, | |
|--|------------------------|----------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Shares allocated | 43,624 | 22,009 |
| Unallocated | 388,212 | 409,827 |
| Total ESOP shares | 431,836 | 431,836 |
| Fair value of unearned shares as of December 31, 2023 and December 31, 2022 respectively | \$ 3,692 | \$ 4,152 |

Equity Incentive Plan

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

Stock options granted under the 2023 Equity Plan generally vest in equal annual installments over a service period of five years beginning on the date of grant. The vesting of the options accelerates upon death, disability or an involuntary termination at or following a change in control of the Company. Stock options are generally granted at an exercise price equal to the fair value of the Company's common stock on the grant date based on the closing market price of the Company's common stock on the date of grant, and have an expiration period of ten years. In June 2023, the Company granted 465,500 stock options under the 2023 Equity Plan. As of December 31, 2023, the Company has 74,296 shares available for future grants of stock options under the 2023 Equity Plan.

The fair value of stock options granted is estimated utilizing the Black-Scholes option pricing model using the following assumptions: an expected life of 6.5 years, risk-free rate of 3.82%, volatility of 29.0% and a dividend yield of 0.0%. Due to the limited historical information of the Company's stock, management considered the weighted historical volatility of the common stock of the Company and other similar entities for an appropriate period in determining the volatility rate used in the estimation of fair value. The expected life of the stock option was estimated using the simplified method. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The Company recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite service period of the awards. Upon exercise of vested options, management expects to first draw on treasury stock as the source for shares. The weighted average grant date fair value of stock options granted during the year ended December 31, 2023 was \$3.56.

The following is a summary of the Company's stock option activity and related information for the periods presented. There was no stock option activity for the year ended December 31, 2022.

| Stock Option | Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value (1) |
|--|----------|---------------------------------|-------------------------------|
| Options, outstanding January 1, 2023 | — | \$ — | \$ — |
| Granted | 465,500 | 9.36 | |
| Vested | (23,000) | 9.36 | |
| Forfeited | — | — | |
| Options, outstanding December 31, 2023 | 442,500 | \$ 9.36 | \$ 66 |
| Exercisable - End of Period | 23,000 | \$ 9.36 | \$ 3 |

(1) Dollars in thousands.

Expected future expense relating to the non-vested options outstanding as of December 31, 2023 is \$1.4 million over a weighted average period of 4.5 years. As of December 31, 2023, the Company had 442,500 in nonvested stock options with a weighted average remaining life of 9.5 years.

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

On June 15, 2023, the Company granted to employees, under the 2023 Equity Plan, 187,200 shares of restricted stock with a total grant-date fair value of \$1.8 million. These restricted stock awards vest in equal installments over a five-year period beginning one year from the date of grant. As of December 31, 2023, the Company has 28,718 shares of restricted stock available for future grants under the 2023 Equity Plan.

The following is a summary of the status of the Company's restricted shares as of December 31, 2023 and changes thereto during the period presented.

| Restricted Stock | Shares | Weighted Average Grant Date Fair Value |
|---|---------|--|
| Nonvested balance as of December 31, 2022 | — | \$ — |
| Granted | 187,200 | 9.36 |
| Vested | (9,200) | 9.36 |
| Forfeited | — | — |
| Nonvested balance as of December 31, 2023 | 178,000 | \$ 9.36 |

Expected future expense related to the non-vested restricted shares outstanding as of period end is \$ 1.5 million over a weighted average period of 4.5 years.

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

| | Year Ended December 31, | |
|--|-------------------------|------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Stock option expense | \$ 252 | \$ — |
| Restricted stock expense | 267 | — |
| Total stock based compensation expense | \$ 519 | \$ — |

For the year ended December 31, 2023, the total deferred tax benefit related to the \$ 519,000 of stock based compensation expense was \$ 123,000. Due to the passing of Director Dolan, 23,000 stock options and 9,200 restricted stock awards vested during the fourth quarter of the year ended December 31, 2023. The early vesting of the stock options and restricted stock awards resulted in an additional expense of \$ 73,000 and \$77,000, respectively, during the year ended December 31, 2023.

Note 13: 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, 2023 and 2022, unused lines of credit and outstanding commitments to originate loans were as follows:

| | 2023 | 2022 |
|--------------------------------|------------------------|-----------------|
| | (Dollars in thousands) | |
| Unused line of credit | \$ 4,050 | \$ 2,872 |
| Commitments to originate loans | 3,770 | 793 |
| Total commitments | \$ 7,820 | \$ 3,665 |

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 14: Fair Value Measurements

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

| | |
|----------------|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities |
| Level 3 | Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities |

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

Following is a description of the valuation methodologies used for assets measured at fair value.

There have been no changes in the methodologies used at December 31, 2023 and 2022.

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.

Individually Evaluated (Nonrecurring)

Individually evaluated (formerly, 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. Individually evaluated loans are evaluated on a quarterly basis for additional credit losses and adjusted accordingly.

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, 2023 and 2022:

| | Fair Value Measurements Using | | | |
|---|-------------------------------|----------|------------|---------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| (Dollars in thousands) | | | | |
| December 31, 2023 | | | | |
| Securities Available-for-sale | | | | |
| U.S. Treasuries | \$ 2,973 | \$ 2,973 | \$ — | \$ — |
| U.S. government agency obligations | 9,106 | — | 9,106 | — |
| Municipal obligations | 13,570 | — | 13,570 | — |
| Mortgage-backed residential obligations | 30,351 | — | 30,351 | — |
| Collateralized mortgage obligations | 26,135 | — | 26,135 | — |
| Total | \$ 82,135 | \$ 2,973 | \$ 79,162 | \$ — |
| December 31, 2022 | | | | |
| Securities Available-for-sale | | | | |
| U.S. Treasuries | \$ 7,288 | \$ 7,288 | \$ — | \$ — |
| U.S. government agency obligations | 21,390 | — | 21,390 | — |
| Municipal obligations | 19,637 | — | 19,637 | — |
| Mortgage-backed residential obligations | 35,738 | — | 35,738 | — |
| Collateralized mortgage obligations | 37,152 | — | 37,152 | — |
| Total | \$ 121,205 | \$ 7,288 | \$ 113,917 | \$ — |

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The Bank may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. There were no assets measured at fair value on a nonrecurring basis as of December 31, 2023 and the valuation techniques used to measure nonrecurring Level 3 fair value measurements as of December 31, 2023 and 2022, were as follows:

| | Fair Value Measurements Using | | | | |
|--------------------------|-------------------------------|---------|---------|---------|-------------|
| | Fair Value | Level 1 | Level 2 | Level 3 | Gain/(Loss) |
| (Dollars in thousands) | | | | | |
| December 31, 2022 | | | | | |
| Impaired loans | \$ 375 | — | — | 375 | \$ — |

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

Note 15: Fair Value of Financial Instruments

Financial instruments are classified within the fair value hierarchy using the methodologies described in Note 14 – Fair Value Measurements. Fair value estimates, methods and assumptions for the Company's financial instruments that are not recorded at fair value on a recurring or non-recurring basis are set forth below.

Loans, net: Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and non-performing categories. Estimated fair value of loans is determined using a discounted cash flow model that employs an exit discount rate that reflects the current market pricing for loans with similar characteristics and remaining maturity, adjusted for estimated credit losses inherent in the portfolio at the balance sheet date.

Interest-bearing deposits: The fair value of interest-bearing deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using rates for currently offered deposits of similar remaining maturities.

Other borrowings: The fair value of borrowings is based on securities dealers' estimated fair values, when available, or estimated using discounted cash flow analysis. The discount rates used approximate the rates offered for similar borrowings of similar remaining terms.

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

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

| | Carrying Amount | Level 1 | Level 2 | Level 3 | Estimated Fair Value |
|---------------------------|-----------------|---------|---------|------------|----------------------|
| (Dollars in thousands) | | | | | |
| December 31, 2023 | | | | | |
| Financial assets: | | | | | |
| Loans, net | \$ 120,623 | \$ — | \$ — | \$ 110,288 | \$ 110,288 |
| Loans held for sale | 380 | — | 387 | — | 387 |
| Financial liabilities: | | | | | |
| Interest-bearing deposits | 156,402 | — | 156,092 | — | 156,092 |
| Other borrowings | 5,000 | — | 4,990 | — | 4,990 |
| December 31, 2022 | | | | | |
| Financial assets: | | | | | |
| Loans, net | \$ 103,359 | \$ — | \$ — | \$ 94,779 | \$ 94,779 |
| Financial liabilities: | | | | | |
| Interest-bearing deposits | 165,737 | — | 165,535 | — | 165,535 |

Note 16: Earnings Per Share

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

There were no securities or other contracts that had a dilutive effect during the twelve months ended December 31, 2023 and 2022, and therefore the weighted-average common shares outstanding used to calculate both basic and diluted EPS are the same. Shares held by the Employee Stock Ownership Plan ("ESOP") that have not been allocated to employees in accordance with the terms of the ESOP, referred to as "unallocated ESOP shares", are not deemed outstanding for purposes of the EPS calculation.

| | Year Ended December 31, | |
|---|--------------------------------|-------------|
| | 2023 | 2022 |
| Net (loss) income applicable to common shares | \$ (3,957) | \$ 27 |
| Average number of common shares outstanding | 5,404,371 | 5,131,758 |
| Less: Average unallocated ESOP shares | 399,873 | 402,522 |
| Average number of common shares outstanding used to calculate basic earnings per common share | 5,004,498 | 4,729,236 |
| (Loss) Earnings per common share basic and diluted | \$ (0.79) | \$ 0.01 |

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

Note 17: Condensed Parent Only Financial Information

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

**NSTS BANCORP, INC.
Condensed Balance Sheets**

| | Year ended December 31, | |
|--|-------------------------|-----------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Assets: | | |
| Cash | \$ 18,634 | \$ 22,194 |
| Investment in subsidiary | 55,035 | 54,510 |
| Loan to ESOP | 3,973 | 4,145 |
| Other assets | 7 | 104 |
| Total assets | \$ 77,649 | \$ 80,953 |
| Liabilities: | | |
| Accrued expense and other liabilities | \$ 104 | \$ 411 |
| Total liabilities | 104 | 411 |
| Stockholders' equity | | |
| Common Stock | 56 | 54 |
| Treasury Stock | (2,381) | — |
| Additional paid-in capital | 50,920 | 50,420 |
| Retained earnings | 41,055 | 45,291 |
| Unallocated common shares held by ESOP | (3,882) | (4,098) |
| Accumulated other comprehensive loss, net | (8,223) | (11,125) |
| Total stockholders' equity | 77,545 | 80,542 |
| Total liabilities and stockholders' equity | \$ 77,649 | \$ 80,953 |

**NSTS BANCORP, INC.
Condensed Statements of Operations**

| | Year ended December 31, | |
|--|-------------------------|----------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Income: | | |
| Interest income | \$ 135 | \$ 140 |
| Total income | 135 | 140 |
| Expense: | | |
| Noninterest expense | \$ 1,180 | \$ 425 |
| Total expense | 1,180 | 425 |
| Losses before income tax expense (benefit) and equity in undistributed (losses) earnings of subsidiary | \$ (1,045) | \$ (285) |
| Income tax expense (benefit) | 96 | (91) |
| Losses before equity in undistributed (losses) earnings of subsidiary | \$ (1,141) | \$ (194) |
| Equity in undistributed (losses) earnings of subsidiary | (2,816) | 221 |
| Net (loss) income | \$ (3,957) | \$ 27 |

NSTS BANCORP, INC.
Condensed Statements of Cash Flows

| | Year ended December 31, | |
|--|-------------------------|------------------|
| | 2023 | 2022 |
| | (Dollars in thousands) | |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (3,957) | \$ 27 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Net change in other assets | 97 | 651 |
| Net change in accrued expenses and other liabilities | (307) | 411 |
| Issuance of common shares donated to North Shore Trust and Savings Charitable Foundation | — | 1,009 |
| Equity in undistributed losses (earnings) of subsidiary | 2,816 | (221) |
| Net cash (used in) provided by operating activities | (1,351) | 1,877 |
| Cash flows from investing activities: | | |
| Principal payments on loan to ESOP | \$ 172 | \$ 174 |
| Net cash provided by investing activities | 172 | 174 |
| Cash flows from financing activities: | | |
| Net proceeds from issuance of common shares | — | 49,440 |
| Loan to ESOP | — | (4,319) |
| Proceeds from conversion transferred to subsidiary | — | (25,225) |
| Purchase of treasury shares | (2,381) | — |
| Net cash (used in) provided by financing activities | (2,381) | 19,896 |
| Net change in cash | (3,560) | 21,947 |
| Cash at beginning of period | 22,194 | 247 |
| Cash at end of period | \$ 18,634 | \$ 22,194 |

Note 18: Changes in Accounting Principles

Accounting for Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, “*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*,” also known as Current Expected Credit Losses, or CECL. ASU 2016-13 was issued to provide financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date to enhance the decision making process. 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.

We adopted ASU 2016-13 using the current expected credit loss (“CECL”) methodology for financial assets measured at amortized cost, effective January 1, 2023. Results for the periods beginning after January 1, 2023 are presented under ASU 2016-13, while prior period amounts are reported in accordance with the previously applicable accounting standards. The Company recorded a reduction to retained earnings of approximately \$279,000 upon adoption of ASU 2016-13. The transition adjustment included an increase to the allowance for credit losses on loans of \$ 384,000 and an increase to the allowance for credit losses on off-balance sheet credit exposure of approximately \$5,000. The transition adjustment included a corresponding increase in deferred tax assets.

The following table illustrates the impact of ASU 2016-13 adoption:

| | Allowance for credit losses as reported under ASU 2016-13 | Allowance pre-ASU 2016-13 Adoption | Impact on Allowance of ASU 2016-13 Adoption |
|--|--|---------------------------------------|---|
| (Dollars in thousands) | | | |
| Assets: | | | |
| First mortgage loans | | | |
| 1-4 family residential | \$ 916 | \$ 581 | \$ 335 |
| Multi-family | 42 | 19 | 23 |
| Commercial | 48 | 19 | 29 |
| Consumer loans | 2 | 5 | (3) |
| Allowance for credit losses for all loans | \$ 1,008 | \$ 624 | \$ 384 |
| Liabilities: | | | |
| Allowance for credit losses on off-balance sheet exposures | \$ 5 | \$ — | \$ 5 |

In March 2022, FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in this update eliminate the accounting guidance and related disclosures for TDRs by creditors in Subtopic 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty and requiring an entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, *Financial Instruments—Credit Losses—Measured at Amortized Cost*. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and are applied prospectively, except with respect to the recognition and measurement of TDRs, where an entity has the option to apply a modified retrospective transition method. Early adoption of the amendments in this update is permitted. An entity may elect to early adopt the amendments regarding TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. As of January 1, 2023, we adopted ASU No. 2022-02, which superseded the current disclosure requirements for TDRs.

Note 19: Subsequent Events

Management evaluated subsequent events through March 28, 2024, the date the financial statements were issued. 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 28, 2024

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> |
|--|---|--------------------|
| /s/ Stephen G. Lear Stephen G. Lear | Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer) | March 28, 2024 |
| /s/ Carissa H. Schoolcraft Carissa H. Schoolcraft | Chief Financial Officer (Principal Financial and Accounting Officer) | March 28, 2024 |
| /s/ Apolonio Arenas Apolonio Arenas | Director | March 28, 2024 |
| /s/ Thaddeus M. Bond, Jr. Thaddeus M. Bond, Jr. | Director | March 28, 2024 |
| /s/ Thomas M. Ivantic Thomas M. Ivantic | Director | March 28, 2024 |
| /s/ Thomas J. Kneesel Thomas J. Kneesel | Director | March 28, 2024 |
| /s/ Rodney J. True Rodney J. True | Director | March 28, 2024 |

**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 is included 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. As of December 31, 2023, there are 5,585,159 shares of our common stock issued and 5,315,261 shares 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 27th day of March, 2024 ("**Effective Date**"), 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, NSTS, the Bank and the Executive previously entered into that certain Employment Agreement dated January 18, 2022 (the "Original Agreement");

WHEREAS, NSTS, the Bank and the Executive desire to amend and restate the Original Agreement by entering into this Amended and Restated Employment Agreement; and

WHEREAS, each of NSTS and the Bank desires to continue to employ the Executive as the Chairman, Chief Executive Officer and President of NSTS and as Chairman of the Bank, 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 Date and ending on the third anniversary of the Effective Date, subject to earlier termination or extension as provided herein (the "**Term**"). On the first anniversary date of the Effective Date, 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 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.
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- (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, if the Executive's employment with the Employer is terminated for any reason other than for Cause pursuant to Section 5(f), then Bank, or its successor, will provide for the 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 eighteen month anniversary of the effective date of termination, without regard to the federal income tax consequences of that continuation.
- (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 provide the benefit described in the last sentence of Section 6(a). 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 and provide the benefit described in the last sentence of Section 6(a). 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 supersedes and cancels all prior written and oral understandings and agreements with respect to such matters, including without limitation, the Original 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 27th day of March, 2024.

NSTS BANCORP, INC.

By: /s/ Thaddues M. Bond, Jr.
Printed Name: Thaddeus M. Bond, Jr.
Its: Chair, Compensation Committee

NORTH SHORE TRUST AND SAVINGS

By: /s/ Thaddues M. Bond, Jr.
Printed Name: Thaddeus M. Bond, Jr.
Its: Chair, Compensation Committee

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: _____

EMPLOYMENT AGREEMENT

This Employment Agreement ("**Agreement**") is made and entered into as of the 27th day of March, 2024 ("**Effective Date**"), 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 Nathan E. Walker ("**Executive**"), and shall become effective and binding as of the date set forth above.

WITNESSETH THAT:

WHEREAS, Executive is currently employed as the Executive Vice President of NSTS and as Chief Executive Officer and President 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 Date and ending on the third anniversary of the Effective Date, subject to earlier termination or extension as provided herein (the "**Term**"). On the first anniversary date of the Effective Date, 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 Executive Vice President of NSTS and as Chief Executive Officer and President of the Bank.
 - (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 (i) the Board of the Bank with respect to his duties as Chief Executive Officer and President of the Bank and (ii) the Chief Executive Officer and President of NSTS with respect to his duties as Executive Vice President of NSTS.
 - (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.
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- (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 recommended by the Chief Executive Officer and President of NSTS and 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 or social 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) A material reduction in the Executive's Base Salary, as the same may be increased from time to time;
- (iii) 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
- (iv) 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.

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, if the Executive's employment with the Employer is terminated for any reason other than for Cause pursuant to Section 5(f), then Bank, or its successor, will provide for the 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 eighteen month anniversary of the effective date of termination, without regard to the federal income tax consequences of that continuation.
- (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 provide the benefit described in the last sentence of Section 6(a). 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 and provide the benefit described in the last sentence of Section 6(a). 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 27th day of March, 2024.

NSTS BANCORP, INC.

By: s/ Thaddues M. Bond, Jr.
Printed Name: Thaddeus M. Bond, Jr.
Its: Chair, Compensation Committee

NORTH SHORE TRUST AND SAVINGS

By: s/ Thaddues M. Bond, Jr.
Printed Name: Thaddeus M. Bond, Jr.
Its: Chair, Compensation Committee

EXECUTIVE

By: s/ Nathan E. Walker
Nathan E. Walker

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 Nathan E. Walker ("**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: _____

Significant Subsidiaries of the Registrant

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

**Consent of Independent Registered
Public Accounting Firm**

We have issued our report dated March 28, 2024, with respect to the consolidated financial statements included in the Annual Report of NSTS Bancorp, Inc. on Form 10-K for the year ended December 31, 2023. We hereby consent to the incorporation by reference of said report in the Registration Statement of NSTS Bancorp, Inc. on Form S-8 (File No. 333-272597).

/s/ Plante & Moran, PLLC

Chicago, Illinois

March 28, 2024

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as 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 28, 2024

/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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as 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 28, 2024

/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 certifies in his or her capacity as an officer of the Company that he or she has reviewed the Company's Annual Report on Form 10-K for the year ended December 31, 2023 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 28, 2024

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

Date: March 28, 2024

/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.

As Adopted by the Board of Directors on November 16, 2023

POLICY CONCERNING RECOVERY
OF ERRONEOUSLY AWARDED COMPENSATION
NSTS BANCORP, INC.

I. POLICY BACKGROUND

This Policy Concerning Recovery of Erroneously Awarded Compensation (“**Policy**”) is adopted by the NSTS Bancorp, Inc. (“**NSTS**”) Board of Directors (“**Board**”) to provide for the recovery, otherwise known as “clawback,” of erroneously awarded incentive-based compensation from Executive Officers (hereinafter defined) in accordance with the applicable rules of Nasdaq Stock Market LLC (the “**Nasdaq**”) and Section 10D of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) and Rule 10D-1 thereunder. The listing standard under the Nasdaq rules requires NSTS to adopt a policy that requires NSTS to reasonably promptly recover erroneously awarded Incentive-Based Compensation (hereinafter defined) from any current or former Executive Officer that was received during the three-year period (and any applicable transition period) preceding the date NSTS is required to prepare an accounting restatement due to NSTS’s material noncompliance with any financial reporting requirement under the securities laws.

II. TEXT OF POLICY

A. **Definitions**. Unless the context otherwise requires, the following definitions apply for purposes of this Policy:

1. “**Erroneously Awarded Compensation**” is the amount of Incentive-Based Compensation received that exceeds the amount of Incentive-Based Compensation that otherwise would have been received had it been determined based on the restated amounts.
 2. “**Executive Officer**” means an individual who is or was an “officer” of NSTS, as such term is defined in Rule 16a-1(f) under Section 16 of the Exchange Act and includes, at a minimum, executive officers identified pursuant to Item 401(b) of Regulation S-K under the Exchange Act.
 3. “**Financial Reporting Measures**” are measures that are determined and presented in accordance with the accounting principles used in preparing NSTS’s financial statements, and any measures that are derived wholly or in part from such measures. Stock price and total stockholder return are also Financial Reporting Measures. A Financial Reporting Measure need not be presented within the financial statements or included in a filing with the Securities and Exchange Commission (“**SEC**”).
-

4. **"Incentive-Based Compensation"** means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure. Incentive-Based Compensation is deemed received in NSTS's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that period.

B. **Recovery of Erroneously Awarded Compensation**. NSTS will recover reasonably promptly Erroneously Awarded Compensation in the event that NSTS is required to prepare an accounting restatement due to the material noncompliance of NSTS with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period. The following general requirements govern recovery under this Policy:

1. This Policy shall be binding and enforceable against all Executive Officers and, to the extent required by applicable law or guidance from the SEC or Nasdaq, their heirs, executors, administrators, or other legal representatives.

2. This Policy shall be applied to the fullest extent required by law. Any employment agreement, equity award agreement, compensatory plan, or any other agreement or arrangement with an Executive Officer shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Executive Officer to abide by the terms of this Policy.

3. Any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to NSTS under law, regulation, or rule, or pursuant to the terms of any policy of NSTS or any provision in any employment agreement, equity award agreement, compensatory plan, agreement, or other arrangement.

4. After an accounting restatement, the Compensation Committee, composed entirely of independent directors (the "**Committee**"), shall determine the amount of Erroneously Awarded Compensation received by each Executive Officer, if any, and shall promptly notify each Executive Officer with a written notice containing the amount of Erroneously Awarded Compensation and a demand for reasonably prompt repayment or return of such compensation.

5. The Committee shall have discretion to determine the appropriate means of recovering Erroneously Awarded Compensation based on the particular facts and circumstances, which may include a direct payment or reimbursement from the Executive Officer, recovery over time pursuant to a repayment schedule, offsetting the recoverable amount from any future pay and/or awards owed to the Executive Officer, or any other method permitted by law that will provide for reasonably prompt recovery. Notwithstanding the foregoing, except as set forth in Section II(E) below, in no event may NSTS accept an amount that is less than the amount of Erroneously Awarded Compensation in satisfaction of the Executive Officer's obligations hereunder.

6. To the extent that an Executive Officer fails to repay or reimburse all Erroneously Awarded Compensation to NSTS when due, NSTS shall take all actions reasonable and appropriate to recover such Erroneously Awarded Compensation from the Executive Officer. The Executive Officer shall be required to reimburse NSTS for any and all expenses reasonably incurred (including attorney fees) by NSTS in recovering such Erroneously Awarded Compensation.

C. **Period Subject to Recovery.** NSTS will recover any Erroneously Awarded Compensation which was received on or after October 2, 2023 by any person (1) after beginning his or her service as an Executive Officer; (2) who served as Executive Officer at any time during the performance period for the Incentive-Based Compensation subject to recovery; (3) while NSTS has a class of securities listed on a national securities exchange or a national securities association; and (4) during the three completed fiscal years (and applicable transition period due to a change in the Company's fiscal year) immediately preceding the date that NSTS is required to prepare an accounting restatement as described in this Policy.

The date that NSTS is required to prepare an accounting restatement as described in this Policy is the date the Board (or any authorized committee of the Board) concludes or reasonably should have concluded that NSTS is required to prepare an accounting restatement as described in this Policy, or the date a court, regulator, or other legally authorized body directs NSTS to prepare an accounting restatement as described in this Policy. NSTS's obligation to recover erroneously awarded compensation is not dependent on if or when the restated financial statements are filed.

D. **Amount Subject to Recovery.** Erroneously Awarded Compensation must be computed without regard to any taxes paid. For Incentive-Based Compensation based on stock price or total shareholder return, when the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the accounting restatement, the following requirements apply:

1. The amount must be based on a reasonable estimate of the effect of the accounting restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was received; and

2. NSTS must maintain documentation of the determination of that reasonable estimate and provide such documentation to Nasdaq.

To the extent that the Executive Officer has already reimbursed NSTS for any Erroneously Awarded Compensation under any duplicative recovery obligations established by NSTS or applicable law, it shall be appropriate for any such reimbursed amount to be credited to the amount of Erroneously Awarded Compensation in satisfaction of the Executive Officer's obligations hereunder.

E . **When Recovery is Impracticable.** NSTS must recover Erroneously Awarded Compensation except to the extent either of the following conditions is met and the Committee has determined that recovery would be impracticable:

1. The direct expense paid to a third party to assist in enforcing this Policy would exceed the Erroneously Awarded Compensation. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, NSTS must make a reasonable attempt to recover such Erroneously Awarded Compensation, document such reasonable attempt(s) to recover, and provide that documentation to Nasdaq.
2. Recovery would likely cause an otherwise tax-qualified plan, under which benefits are broadly available to employees of NSTS, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Internal Revenue Code of 1986 and regulations thereunder.

F . **Indemnification of Recovery Prohibited.** NSTS shall not insure or indemnify any Executive Officer against the loss of Erroneously Awarded Compensation.

G. **Mandatory Disclosures.**

1. NSTS shall file this Policy as an exhibit to its Annual Report on Form 10-K and, if applicable, disclose information relating to the occurrence of an accounting restatement in accordance with Nasdaq rules and the Exchange Act.

2. In the event that NSTS is required to recover any Erroneously Awarded Compensation, NSTS, in accordance with Nasdaq rules and the Exchange Act, will disclose: (i) the aggregate amount recovered, or (ii) if no amount was recovered, the absence of a recoverable amount.

H. **Acknowledgement.** Each Executive Officer shall review and acknowledge this Policy within 30 days of its adoption by the Board or 30 days from the date of hire or assumption of Executive Officer status, as applicable.

III. ADMINISTRATION; POLICY REVIEW

This Policy will be enforced in accordance with the incentive compensation recovery rules of the SEC and Nasdaq rules. The Committee shall be responsible for monitoring the application of this Policy, has the authority to construe, interpret, and implement this Policy and make any determinations necessary or advisable in administering this Policy, and may consult with, retain, and terminate, at NSTS's expense, legal counsel, compensation consultants, or other advisors to advise the Committee with respect to any matters relevant to the administration of this Policy, including the determination and recovery of any Erroneously Awarded Compensation. This Policy will be deemed to be automatically updated to incorporate any requirement of law or SEC or exchange listing standard, rule, or regulation applicable to NSTS.

Pursuant to its annual audit plan, the Internal Audit Department or a qualified third party will audit compliance with this Policy. Any findings or recommendations resulting from the audit will be in writing and provided to the Audit Committee, Chief Executive Officer, Chief Risk Officer, and Chief Compliance Officer.

The Committee is responsible for periodically reviewing this Policy and recommending to the Board any necessary revisions for consideration and approval. In addition to the foregoing, this Policy will be presented to the Board no less than annually.

| Description of Change | Revision | Board Approval Date |
|---------------------------|----------|---------------------|
| Initial Document Creation | 1.0 | November 16, 2023 |
| | | |

NSTS BANCORP, INC.

**STATEMENT OF POLICY CONCERNING
THE RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION**

ACKNOWLEDGMENT

The undersigned hereby acknowledges receipt of the attached Policy of NSTS Bancorp, Inc. and its wholly-owned subsidiaries (“ **NSTS**”) for the recovery of Erroneously Awarded Compensation and hereby covenants that the undersigned will strictly comply with such Policy both during and after employment with NSTS, including, without limitation, by promptly repaying or returning any Erroneously Awarded Compensation to NSTS as required by this Policy.

Signature: _____

Printed: _____

Title: _____

Date: _____