

NORTHERN STATES FINANCIAL CORPORATION
AND SUBSIDIARIES

EXCESSIVE OR LUXURY EXPENDITURE POLICY

APPROVED: SEPTEMBER 15, 2009

EXCESSIVE OR LUXURY EXPENDITURE POLICY

NORTHERN STATES FINANCIAL CORPORATION

This policy fulfills the requirements under the American Recovery and Reinvestment Act of 2009 (ARRA) enacted February 17, 2009. ARRA requires each recipient of funds under the Capital Purchase Program (CPP) of the Troubled Assets Relief Program (TARP) to have in place a company-wide policy regarding excessive or luxury expenditures, as identified by the Secretary of the Department of the U.S. Treasury.

Northern States Financial Corporation (Company) and its subsidiaries, including NorStates Bank (Bank), prohibit excessive or luxury expenditures on entertainment and events that are not reasonable expenditures for conferences, staff development, performance incentives or similar measures conducted in the normal course of the business operations of the Company and subsidiaries.

Entertainment & Events:

Entertainment is defined as an activity that a Director, Employee or Executive would use corporate funds for business development purposes relating to a current customer(s) or prospective customer(s) or to further enhance the Company's marketing efforts.

Our expectation is that all expenses incurred to the Bank would be for Bank purposes and used to drive business to the Company. These expenses would need to be approved by those in authority at the Bank. Occasional events such as taking customer or prospects on trips, playing golf, eating dinner, taking them to other events the customer / prospect would find pleasurable is a necessary part of the Company's marketing efforts and is not deemed as "entertainment" or a violation of the Excessive or Luxury Expenditure Policy.

Renovations:

Renovations of facilities and office spaces should be relative to the approved capital budget. An exception to this can be allowed if management must deal with an emergency situation, such as an act of nature, and the expenditure is necessary to make the facility operational for customer use.

At no time should renovations be done that would have the appearance of being extraordinary, or excessive from a stockholder perspective.

Aviation Services:

Transportation for Company staff conducting Company business should be utilized in the most cost efficient way for the Company and need to be approved by those in authority at the Bank. Airfare should be managed utilizing the most efficient cost possible. The Company will provide coach airfare on all business related trips.

Other:

The Company encourages our staff to attend seminars/conferences that are appropriate educational opportunities. These seminars /conferences should be related to the financial services industry and need to be approved by those in authority at the Bank. Typically these conferences are sponsored by vendors, banking associations, or other industry related entities.

We believe that employee activities are part of an employee appreciation process. Activities should be local in geographic nature and should not cost the Company more than an average day's compensation per employee on average.

Board Retreats should only be used for educational purposes and looked at in the same view and discretion as all other expenses. Board education is a vital part of maintaining and keeping a dynamic director base. This policy does not limit a retreat that is focused on strategic planning or education.

Events and parties focused on customers for the purpose of attracting and maintaining their business would not fall under this policy.

Each year, the Company's Executive Vice President (EVP) and Vice President and Treasurer (VPT) shall require and oversee a review of incurred expenses covered by the Excessive or Luxury Expenditure Policy to determine if all required approvals have been obtained. Based on this review, the EVP and VPT shall submit a certification to the Compensation and Employee Benefits Committee stating that all required approvals have been properly obtained or, if not the case, noting the specific failures.

Accountability and Violations:

The Excessive or Luxury Expenditure Policy applies to the Company and its subsidiaries and all their directors, officers and employees. Failure to comply with the Excessive or Luxury Expenditure Policy could result in the individual having to reimburse the Company or its subsidiaries for improper expenses incurred or other personnel action.

Reporting Violations or Possible Violations of the Excessive or Luxury Expenditure Policy:

All employees and directors are expected to report violations or possible violations of the Excessive or Luxury Expenditure Policy to:

- If the violation or potential violation involves any director or officer of the Company or any Executive Vice President of the Bank, it should be reported to the Chairman of the Compensation and Employee Benefits Committee or the Chairman of the Audit Committee.
- If the violation or potential violation involves any other officer or employee it should be reported to the Company's Executive Vice President.

Effectiveness:

In accordance with applicable law and regulation, this Excessive or Luxury Expenditure Policy shall be effective from the date of adoption until the first business day following the date the Company redeems the preferred securities purchased by the Treasury with federal assistance.

