

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

Written Agreement by and between

NORTHERN STATES FINANCIAL  
CORPORATION  
Waukegan, Illinois

and

FEDERAL RESERVE BANK OF  
CHICAGO  
Chicago, Illinois

Docket No. 11-032-WA /RB-HC

WHEREAS, Northern States Financial Corporation, Waukegan, Illinois (“Northern States”), a registered bank holding company, owns and controls Norstates Bank, Waukegan, Illinois (“Bank”), a state-chartered nonmember bank, and various nonbank subsidiaries;

WHEREAS, it is the common goal of Northern States and the Federal Reserve Bank of Chicago (the “Reserve Bank”) to maintain the financial soundness of Northern States so that Northern States may serve as a source of strength to the Bank;

WHEREAS, Northern States and the Reserve Bank have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on March 15, 2011, the board of directors of Northern States, at a duly constituted meeting, adopted a resolution authorizing and directing Scott Yelvington to enter into this Agreement on behalf of Northern States, and consenting to compliance with each and every provision of this Agreement by Northern States and its institution-affiliated parties, as

defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)).

NOW, THEREFORE, Northern States and the Reserve Bank agree as follows:

**Source of Strength**

1. The board of directors of Northern States shall take appropriate steps to fully utilize Northern States’ financial and managerial resources, pursuant to section 225.4 (a) of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with the Consent Order issued jointly by the Federal Deposit Insurance Corporation (“FDIC”) and the Illinois Department of Financial and Professional Regulation on April 16, 2010, and any other supervisory action taken by the Bank’s federal or state regulator.

**Dividends and Distributions**

2. (a) Northern States shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation (the “Director”) of the Board of Governors.

(b) Northern States shall not directly or indirectly take dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) Northern States and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(d) All requests for prior approval shall be received by the Reserve Bank at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information on Northern States' capital, earnings, and cash flow; the Bank's capital, asset quality, earnings, and allowance for loan and lease losses (the "ALLL"); and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, Northern States must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

### **Debt and Stock Redemption**

3. (a) Northern States and its nonbank subsidiaries shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Northern States shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

## Capital Plan

4. Within 60 days of this Agreement, Northern States shall submit to the Reserve Bank an acceptable written plan to maintain sufficient capital at Northern States on a consolidated basis. The plan shall, at a minimum, address, consider, and include:

(a) The consolidated organization's and the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D) and the applicable capital adequacy guidelines for the Bank issued by the Bank's federal regulator;

(b) the adequacy of the Bank's capital, taking into account the volume of classified credits, its risk profile, the adequacy of the allowance for loan and lease losses, current and projected asset growth, and projected earnings;

(c) the source and availability of additional funds necessary to fulfill the consolidated organization's and the Bank's future capital requirements on a timely basis;

(d) supervisory requests for additional capital at the Bank or the requirements of any supervisory action imposed on the Bank by its federal or state regulator; and

(e) the requirements of section 225.4(a) of Regulation Y of the Board of Governors that Northern States serve as a source of strength to the Bank.

5. Northern States shall notify the Reserve Bank, in writing, no more than 45 days after the end of any quarter in which any of Northern States's capital ratios fall below the approved plan's minimum ratios. Together with the notification, Northern States shall submit an acceptable written plan that details the steps that Northern States will take to increase Northern States' capital ratios to or above the approved plan's minimums.

## **Cash Flow Projections**

6. Within 30 days of this Agreement, Northern States shall submit to the Reserve Bank a written statement of its planned sources and uses of cash for debt service, operating expenses, and other purposes (“Cash Flow Projection”) for the first full calendar quarter following the date of this Agreement. For each subsequent calendar quarter Northern States shall submit to the Reserve Bank a Cash Flow Projection for that calendar quarter at least thirty days prior to the beginning of that quarter.

## **Compliance with Laws and Regulations**

7. (a) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, Northern States shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*).

(b) Northern States shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the FDIC’s regulations (12 C.F.R. Part 359).

## **Approval and Implementation of Plans**

8. (a) Northern States shall submit written plans that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 4 and 5 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank, Northern States shall adopt the approved plans. Upon adoption, Northern States shall promptly implement the approved plans, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans shall not be amended or rescinded without the prior written approval of the Reserve Bank.

### **Progress Reports**

9. Within 30 days after the end of each calendar quarter following the date of this Agreement, the board of directors shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Agreement and the results thereof, and a parent company only balance sheet, income statement, and, as applicable, report of changes in stockholders' equity.

### **Communications**

10. All communications regarding this Agreement shall be sent to:

- (a) Mr. Charles F. Luse  
Assistant Vice President  
Regional Director-Illinois  
Federal Reserve Bank of Chicago  
230 South LaSalle  
Chicago, Illinois 60604
- (b) Mr. Scott Yelvington  
President and CEO  
Northern States Financial Corporation  
1601 North Lewis Avenue  
Waukegan, Illinois 60085

### **Miscellaneous**

11. Notwithstanding any provision of this Agreement, the Reserve Bank may, in its sole discretion, grant written extensions of time to Northern States to comply with any provision of this Agreement.

12. The provisions of this Agreement shall be binding upon Northern States and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

13. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

14. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other action affecting Northern States, the Bank, the nonbank subsidiaries of Northern States, or any of their current or former institution-affiliated parties and their successors and assigns.

15. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 17<sup>th</sup> day of March, 2011.

NORTHERN STATES FINANCIAL  
CORPORATION

FEDERAL RESERVE BANK  
OF CHICAGO

By: /s/ Scott Yelvington  
Scott Yelvington  
President and CEO

By: /s/ Mark H. Kawa  
Mark H. Kawa  
Vice President