

Change is Constant.

*The real distinction lies in the response.*

**FIRST NORTHERN COMMUNITY BANCORP**

2008 Annual Report

## Policy of Independence

The Boards of Directors of First Northern Bank, since inception in 1910, have been committed to providing customers, shareholders and employees an independent banking organization that offers localized financial services. Shareholders have invested their capital to ensure that our service areas have a bank that supports economic growth and stability within their communities. Customers have, over the years, placed their banking relationships with First Northern Bank, providing localized deposits for investing in the community. First Northern Bank is committed to remaining an independent bank that provides quality banking services and has a vested interest in the economic viability and growth of the communities it serves.

— *Passed by the Bank's Board of Directors on March 28, 1996*

## Vision

To be THE most admired financial services provider so more and more people will be saying,  
*"First Northern, that's my bank!"*

## Mission

To remain an independent financial services provider, we will continuously increase shareholder value by employing the very best people who exceed customer expectations and serve our community.

## Values

People First • Absolute Integrity • Zest for Excellence

## Message to Shareholders

*Dear Fellow Shareholders,*

In 2008, we witnessed a near meltdown in the financial services industry with the collapse of Lehman Brothers, the distressed sales of Bear Stearns, Merrill Lynch, Washington Mutual and Wachovia, government receivership of Fannie Mae and Freddie Mac, the government bailout of AIG, and the \$700 billion TARP program. We continue to witness rising unemployment, increased consumer and commercial loan defaults, a loss of wealth, new orders and production falling sharply, and there is no sign of a bottom to the declining real estate values.

To characterize 2008 as a challenging year for the financial services industry would be a vast understatement. Virtually all banks felt the negative impact of the weakening economic conditions and the turmoil in the credit markets. In California, where the decline in the housing market and the rise in unemployment have been among the most severe in the country, the operating environment has been even more difficult.

In response to the severe economic downturn and market chaos, First Northern Community Bancorp shifted its near-term strategic focus from a balanced approach to growing the franchise through profitable organic expansion to preserving its balance sheet strength. Accordingly, we sharpened our pencils and decisively moved toward a more focused risk management operating model. Initiatives we embarked upon included: identifying problem assets as early as possible, substantially building our allowance for loan losses, aggressively pursuing new customers in order to expand our deposit base, downsizing our geographic footprint through office profitability studies, implementing a Company-wide expense management initiative, and maintaining the well-capitalized status of the Company.

The most significant area of concern in 2008 was our portfolio of loans to homebuilders for the construction of new homes. While we originated these loans with conservative underwriting standards that required loan-to-value ratios of 75% on average, the rapid and dramatic decline in housing prices in California had a severe impact on the value of the collateral underlying these projects. As a result, we incurred significant losses in this portfolio during the year.

Following charge-offs, dispositions, and pay-downs, our homebuilding loan portfolio stood at approximately \$67.2 million at the end of 2008, which represents just 13% of our total loans. With the outstanding balance in this portfolio having declined by \$24.7 million or 27% during 2008, we believe we have reduced our potential exposure to additional losses related to the homebuilding market.

The remainder of our loan portfolio was not impacted nearly as much as the homebuilding portfolio, although it did exhibit a level of deterioration consistent with a recessionary economy. We were very prudent in building our allowance for loan losses to reflect deteriorating economic conditions. During 2008, we took a provision for loan losses of approximately \$16.2 million. As a result of the significant reserve build, we completed 2008 with an allowance to total loans ratio of 2.71%, which is at the higher end of our peer group and a positive reflection of the actions we took during the year to recognize inherent losses in the loan portfolio.

Our net loss for the full year was \$1.37 million. While 2008 was very disappointing from a profit perspective, we were beginning to see momentum from our ‘balance sheet strengthening’ emphasis. Some of our notable accomplishments for the year included:

- Our **total risk-based capital to risk weighted assets ratio** was 11.4% at year end, then improved to 14.XX% on March 13, 2009 when we received a \$17.39 million investment from the U.S. Treasury through its Capital Purchase Program (CPP). At the end of 2007, our total risk-based capital to risk weighted assets ratio was 11.9%. (10% is the regulatory definition of a “well capitalized” financial institution.)
- We took advantage of a superb opportunity in the city of Auburn. First Northern Bank was able to bring on board a number of employees who were employed by Placer Sierra Bank when a mega bank acquired the well-respected community bank. Our **Auburn Financial Center**, which houses a full service bank branch and an Investment & Brokerage Services office, was opened in June 2008 in a highly visible location along Highway 49. The Auburn team is enthusiastically bringing over lots of new customers to First Northern who simply do not want to bank with a mega bank.
- We launched several new enhancements to our website: an **Online Switch Kit** (makes switching accounts to First Northern Bank easy), a **Small Business Resource Center** (free business tools and planning guides for First Northern business customers), **Anytime Loans** (online real estate mortgage and home equity loan applications, rates, calculators and more), **Identity Theft Monitoring & Prevention** program, and **quarterly state-of-the-industry letters** to FNB customers from the Bank President are highlighted on the homepage.
- We rolled out a **Health Savings Account** which is an IRS-approved savings account that works in conjunction with a high deductible health plan to allow business owners and employees to take advantage of more cost-effective insurance premiums and tax free medical expenses. Funds within the Health Savings Account are accessible through the use of a First Northern Bank debit card.
- We installed **rooftop solar systems** on all of the branch and administrative buildings owned by the Bank. The solar retrofit work is fully operational in two Dixon buildings, as well as the Winters and West Sacramento Branches. First Northern is now receiving rebates and monthly incentives from the State and Pacific Gas & Electric.
- Throughout the year, we continued to support our nonprofit sector through **financial and volunteer assistance**. Giving back to those who deserve our help remains a big part of our culture—easy to do in good economic times; difficult and critically important in times like these.
- And, First Northern Bank received several honors over the year. We once again received the Best of Yolo Award in the categories of “**Best Bank**” and “**Best Customer Service**” from the residents and businesses of Yolo County. We received “**Favorite Local Bank**” in *Roseville Style* magazine’s Readers Choice Awards. We were recognized as No. 125 on the list of the **Top 200 Community Banks** published in the June 2008 issue of *U.S. Banker* magazine (the ranking was based upon the Bank’s 3-year average Return on Equity). Additionally, Raymond James Financial Services, Inc., First Northern Bank’s independent broker/dealer providing non-FDIC insured securities and investment advisory services through in-house registered financial advisors received *Smart Money* magazine’s No. 1 Full-Service Broker Award. The magazine credited Raymond James with top ratings in customer satisfaction and account statements.

### *Looking Ahead*

With no end in sight to the recession we're in, it's certain that 2009 will be another challenging year. We are preparing for considerable headwinds, including a reduced net interest margin and a continuation of elevated credit management costs.

Our priorities for 2009 include a continued focus on aggressive deposit gathering; utilizing the additional capital from the CPP investment to increase our commercial and consumer loan production while continuing to apply our prudent lending criteria; and tightly managing our expense levels. While we have every intention of retaining and hiring key staff to meet our strategic initiatives, we will be carefully managing headcount and salary expense throughout the months ahead.

The financial turmoil over the past two years has dramatically altered the competitive landscape for financial services companies, particularly in California. A number of the community banks that formerly competed in our markets are now gone, leaving opportunity for First Northern Community Bancorp to capture new banking relationships with commercial, high net-worth and retail customers who place a high value on the type of personal service and local decision-making that remain the hallmark of our Company. While we are mindful of the importance of being conservative with our allocation of capital, we are also keenly aware of the value of making strategic investments in our future. We remain vigilant in looking for opportunities to increase our market share and further strengthen our position as the premier community bank in our chosen markets.

In closing, we would like to sincerely thank our shareholders for your continued support; we know we have a lot of work to do to restore the value that has been lost these past months. We are doing all that we can to position First Northern Community Bancorp to be ready when the economy turns, and we are confident that we can reward our shareholders in the years ahead for your patience and the trust you have placed in us. We want to thank our valued customers for their business. Our team of highly skilled employees has always been known for delivering the products customers need along with a superior level of service customers desire, and we have not let up in that regard during this recession. We praise our employees for their hard work and unwavering dedication during a very difficult time for bankers. Employee commitment to ensuring the highest level of customer satisfaction is a critical component of our ability to successfully work through this challenging time. For nearly 100 years, we've had a vision to bring a better kind of banking to our communities. While the environment we operate in is ever changing, we attribute our continued success to our ability to stay true to our values in every decision we make. And, as always, we continue to work hard to exceed your expectations.



Owen J. Onsum, *President and Chief Executive Officer*



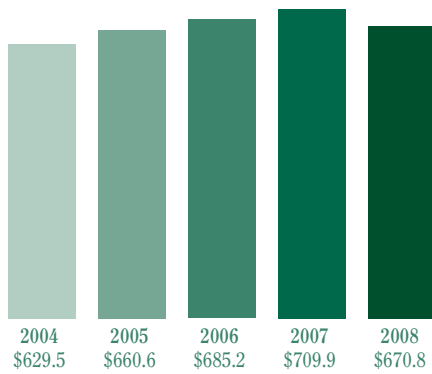
Greg DuPratt, *Chairman of the Board*



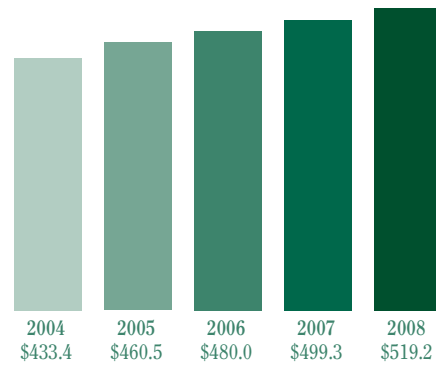
Greg DuPratt, *Chairman of the Board*  
John Onsum, *President and CEO*

## Financial Results

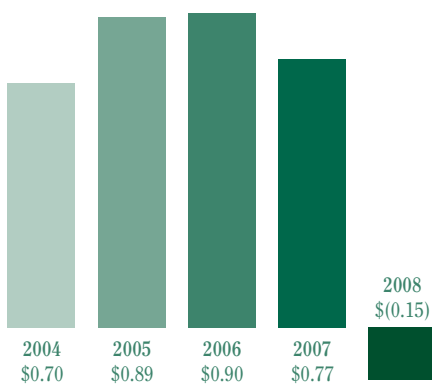
**Assets**  
*dollars in millions*



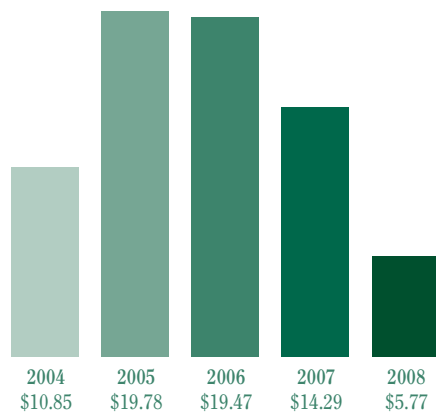
**Loans**  
*dollars in millions*



**Diluted (loss) Income Per Share**

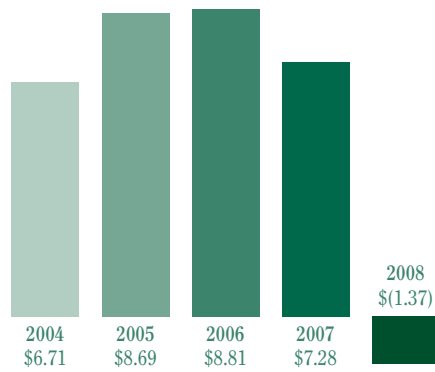


**Stock Price**  
*prices are as of year-end and reflect adjustments for splits and dividends*



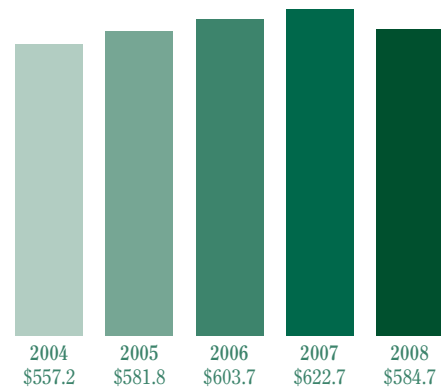
### Net Earnings

dollars in millions



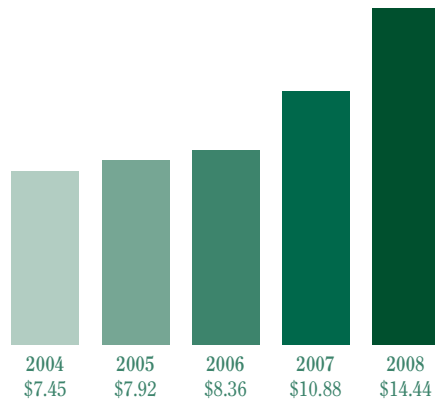
### Deposits

dollars in millions

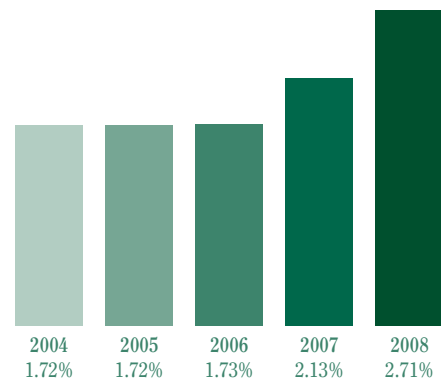


### Allowance for Loan Losses

dollars in millions



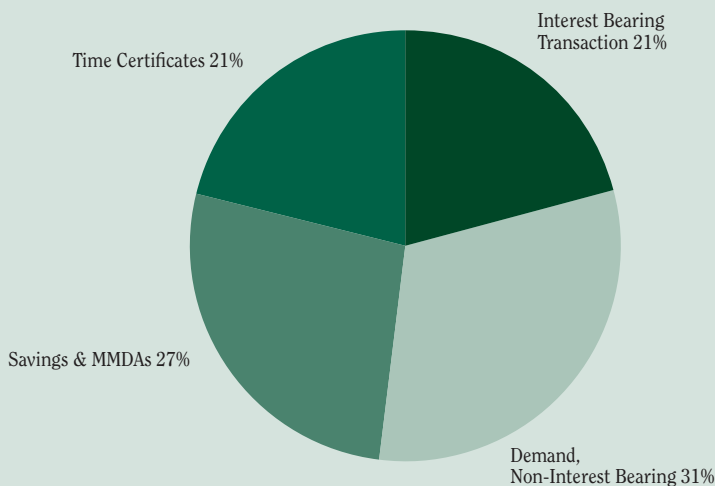
### Allowance for Loan Losses as a Percent of Total Loans



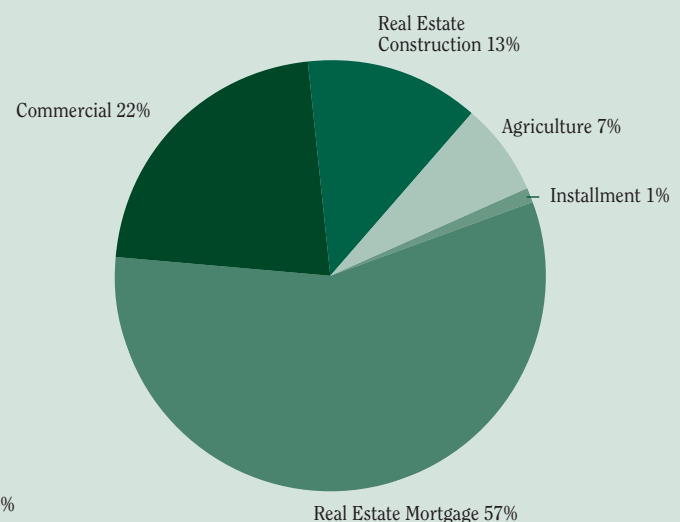
## Summary of Operations

<i>Dollars in thousands</i>	2008	2007	2006	2005	2004
Interest Income and Loan Fees	\$38,871	\$48,594	\$48,070	\$40,902	\$31,619
Interest Expense	(6,375)	(11,738)	(9,426)	(5,729)	(3,426)
Net Interest Income	32,496	36,856	38,644	35,173	28,193
Provision for Loan Losses	(16,164)	(4,795)	(735)	(600)	(207)
Net Interest Income after Provision for Loan Losses	16,332	32,061	37,909	34,573	27,986
Other Operating Income	6,313	7,160	5,289	5,720	5,214
Other Operating Expense	(27,654)	(28,803)	(29,219)	(26,813)	(22,943)
(Loss)/Income before Taxes	(5,009)	10,418	13,979	13,480	10,257
Benefit/(Provision) for Taxes	3,635	(3,137)	(5,169)	(4,792)	(3,550)
Net (Loss)/Income	(1,374)	\$ 7,281	\$ 8,810	\$ 8,688	\$ 6,707
Basic (Loss)/Income Per Share	\$ (0.15)	\$ 0.79	\$ 0.95	\$ 0.93	\$ 0.71
Diluted (Loss)/Income Per Share	\$ (0.15)	\$ 0.77	\$ 0.90	\$ 0.89	\$ 0.70

### Deposit Portfolio Composition



### Loan Portfolio Composition





## Stock Information

As of December 31, 2008, there were 1,294 holders of record of the Company's common shares, which was the only class of equity securities authorized or issued at that time.

The Company's common stock is not listed on any exchange nor is it listed on the NASDAQ, however, it can be found on the OTC Bulletin Board under the symbol FNRN. First Northern Community Bancorp is aware that Howe Barnes Hoefler & Arnett, Inc., Wedbush Morgan Securities, Stone & Youngberg, Inc. and Monroe Securities, Inc. all make a market in the Company's stock (see page 8 for contact information). Management is aware that there are also private transactions in the Company's common stock and the data set forth may not reflect all such transactions. The range of high and low bid quotations for each quarterly period during 2008 and 2007, as provided by Stone & Youngberg, is set forth herein to the extent available:

### 2008

High *	Low *	
\$10.00	\$ 6.00	4th Quarter
\$11.75	\$ 9.00	3rd Quarter
\$14.50	\$10.00	2nd Quarter
\$18.00	\$12.50	1st Quarter

### 2007

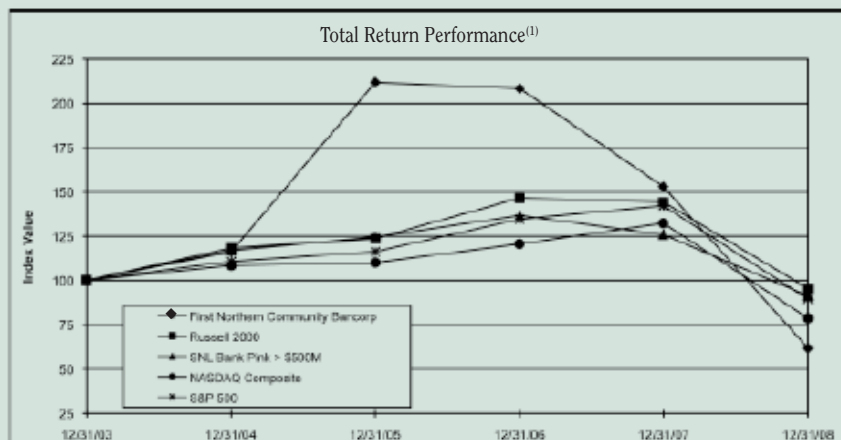
High *	Low *	
\$17.83	\$14.86	4th Quarter
\$17.92	\$14.86	3rd Quarter
\$18.16	\$16.36	2nd Quarter
\$20.92	\$17.45	1st Quarter

\* Price adjusted for dividends and splits.

### Stock Performance Graph

The graph below compares the cumulative total shareholder return on First Northern Community Bancorp (the "Company") common stock to the cumulative total return of the Russell 2000, the SNL >\$500M OTC-BB and Pink Sheets Banks as prepared by SNL Financial LC, which uses the cumulative total or the OTC Bulletin Board, an electronic, screen-based market maintained by the NASD, Inc.'s subsidiary, or the Pink Sheets, the NASDAQ Composite and the S&P 500. The following comparison covers the period from December 31, 2003 to December 31, 2008. The graph assumes that \$100 was invested on December 31, 2003 and that all dividends were reinvested.

The Company is not among the approximately 2,000 companies included in the Russell 2000. The Company is among the commercial banks and bank holding companies included in the SNL >\$500M OTC-BB and Pink Sheets Banks whose stocks trade on either the OTC Bulletin Board or Pink Sheets.



(1) Assumes \$100 invested on December 31, 2003 in the Company's Common Stock, the Russell 2000 composite stock index, the SNL >\$500 OTC-BB and Pink Sheets Banks index of bank stocks, the NASDAQ Composite, and the S&P 500, with reinvestment of dividends.

## Shareholder Information

### Form 10-K

The Company makes available free of charge on [www.thatsmybank.com](http://www.thatsmybank.com) its Annual Reports on SEC Form 10-K, as filed with the SEC pursuant to the Securities Exchange Act of 1934, or by writing to Lynn Campbell, Assistant Vice President/Corporate Secretary, First Northern Community Bancorp, 195 N. First Street, Dixon, California, 95620. These filings are also accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). Shareholders may also obtain without charge a copy of the Bank's Annual Disclosure Statement prepared pursuant to Part 350 of the FDIC's rules and regulations by writing to the address above or by calling Administration, (707) 678-3041.

### Annual Meeting of Shareholders

The 2009 Annual Meeting of Shareholders will be held at 5:30 p.m., Tuesday, May 19, 2009 at the First Northern Bank Operations Center, 210 Stratford Avenue, Dixon, California 95620.

### *Cautionary Note Regarding Forward-Looking Information*

*This publication includes forward-looking statements, which include statements regarding forecasts of our financial results and condition, credit quality, the company's focus, vision and strategies, and the expected benefits of its strategies, the company's growth prospects and competitive position, ability to return capital to investors and enhance shareholder value, expectations for the company's operations and business, and assumptions for those forecasts and expectations. Do not rely unduly on forward-looking statements. Actual results might differ significantly from the company's forecasts and expectations. Please refer to Item 1A "Risk Factors" in the Form 10-K for a discussion of some factors that may cause results to differ. All forward-looking information is based on information available as of the date of this report. We assume no obligation to update any forward-looking information.*

### Independent Auditors

Moss Adams LLP, 3121 West March Lane, Suite 100 Stockton, California 95219-2303

*For stock information, please call one of the Bancorp's market makers:*

John Cavender, Howe Barnes Hoefler & Arnett, Inc. (800) 346-5544

Lisa Ann Gallo, Wedbush Morgan Securities (800) 357-3680

Troy Norlander, Stone & Youngberg (800) 288-2811

Steven Schroeder, Monroe Securities, Inc. (800) 766-5560

### Corporate Headquarters

195 N. First Street, Dixon, California 95620 (707) 678-3041

### First Northern Community Bancorp Administrative Management

Owen J. Onsum, *President and Chief Executive Officer*

Louise A. Walker, *Sr. Executive Vice President/ Chief Financial Officer*

Patrick S. Day, *Executive Vice President*

Robert M. Walker, *Executive Vice President*

Lynn Campbell, *Assistant Vice President/Corporate Secretary*

## Office Locations

**Administration** 195 N. First Street, Dixon, California 95620 (707) 678-3041

**Asset Management & Trust Department** 1007 7th Street, Ste. M100, Sacramento, California 95814 (916) 325-0050

**Auburn Branch** 2833 Bell Road, Auburn, California 95603 (530) 885-5009

**Auburn Investment & Brokerage Services** 2833 Bell Road, Auburn, California 95603 (530) 745-2281

**Central Operations** 210 Stratford Avenue, Dixon, California 95620 (707) 678-1904

**Covell Gardens, *Satellite Office*** 1111 Alvarado Street, Davis, California 95616

**Davis Branch** 434 Second Street, Davis, California 95616 (530) 758-7500

**Davis Investment & Brokerage Services** 508 Second Street, Davis, California 95616 (530) 756-5814

**Davis Real Estate Loan Office** 624 Second Street, Davis, California 95616 (530) 753-1585

**Dixon Branch** 195 N. First Street, Dixon, California 95620 (707) 678-4422

**Downtown Financial Center** 555 Mason Street, Suite 100, Vacaville, California 95688 (707) 447-8600

**Downtown Sacramento Branch** 700 J Street, Sacramento, California 95814 (916) 447-9000

**Fairfield Branch** 1455 Oliver Road, Fairfield, California 94534 (707) 425-2900

**Fairfield Investment & Brokerage Services** 1455 Oliver Road, Suite 240, Fairfield, California 94534 (707) 399-2418

**Folsom Real Estate Loan Office** 2360 E. Bidwell Street, Suite 100, Folsom, California 95630 (916) 817-3910

**Investment & Brokerage Services, *Main Office*** 2360 E. Bidwell Street, Suite 100, Folsom, CA 95630 (916) 817-3909

**Regency Park Branch** 661 Elmira Road, Vacaville, California 95687 (707) 447-1400

**Roseville Branch** 2150 Douglas Boulevard, Suite 260, Roseville, California 95661 (916) 787-8510

**Roseville Real Estate Loan Office** 2150 Douglas Boulevard, Suite 260-C, Roseville, California 95661 (916) 787-8500

**SBA Loan Department** 1007 7th Street, M102, Sacramento, California 95814 (916) 567-6270

**University Retirement Community, *Satellite Office*** 1515 Shasta Drive, Davis, California 95616

**Vacaville Real Estate Loan Office** 661 Elmira Road, Vacaville, California 95687 (707) 469-2139

**West Sacramento Branch** 1300 Harbor Boulevard, W. Sacramento, California 95691 (916) 372-1023

**West Sacramento Investment & Brokerage** 1550 Harbor Blvd., Suite 140, W. Sacramento, CA 95691 (916) 376-8600

**Winters Branch** 48 Main Street, Winters, California 95694 (530) 795-4501

**Woodland Branch** 11 W. Court Street, Suite A, Woodland, California 95695 (530) 661-6000

# FIRST NORTHERN COMMUNITY BANCORP



## FIRST NORTHERN BANK

### Expertise in Community Banking

*We bring a wealth of financial solutions to our clients:*

Cash Management Services

Deposit Capture

Asset Management & Trust Administration, *non-FDIC insured*

Investment & Brokerage Services, *non-FDIC insured*

Small Business Administration Lending

Residential Mortgage Lending

Lease Financing

Construction Financing

Business Banking

Internet Banking

Personal Banking

Non-Profit/Association Banking

Private Client Services

Payroll Services

Small Business Resource Center

24-Hour Mortgage & Home Equity Loans

195 N. First Street  
Dixon, California 95620

Member FDIC



EQUAL HOUSING  
LENDER