

Dear Shareholders:

Banking struggled through one of the worst years in memory during 2008, and NorthSide Community Bank and our customers also felt the stress. It was a year that saw the collapse of Washington Mutual, Lehman Brothers, and the absorption of major financial institutions into mega banks propped up by the government. It is likely that by the time this is printed and reaches you, one of the largest banks in the country will be nationalized. It also saw interest rates drop substantially, as the prime lending rate is now at 3.25%, a very low level causing margin compression issues for all banks to deal with.

With the TARP funds and \$789 **Billion** dollar stimulus bill passed, it will remain to be seen if enough attention in the right areas has been delivered. The problem started in the residential home mortgage area, which affected the large banks and investment banking. Until the market values of residential homes stabilize, the problem of declining home prices and foreclosures will persist. We now have the added concern of retail stores going out of business which is devaluing the commercial real estate sector, due in part to lack of consumer spending.

Our analysis of the situation is that this is a business cycle which must run its course, as painful as it is and will be. Government intervention is best when delivered quickly and effectively, but as we have seen in the past, the chances of that are slim and certainly inflationary 3 to 4 years down the road.

### **How will this all affect NSCB?**

There has been much controversy regarding accepting and using TARP funds. The bank was not approved for TARP funds and we believe with the support of our customers, shareholders and employees we will be able to navigate through this economic downturn. We are conserving capital to maintain our well capitalized position which is 13.86%, a very strong ratio. Our shareholders understand the long term nature of business cycles and how a recovery will see the bank's value rise in the future. The staff is extremely efficient and all efforts focus on minimizing the negative impact of this current business cycle and working to maintain our good long term customer relationships.

### **Results**

For the year in 2008, the bank continued its strategy to downsize. Assets decreased to \$555 million, and loans decreased to \$508 million and deposits decreased to \$441 million. Nonaccruals to capital are very high at 51.53% to capital. The majority of non-accrual loans are construction loans made during 2006 and vacant land development loans made in the same timeframe. The market is frozen in terms of buyers for these assets, so we will hold them long-

term if necessary, or sell them depending on the best economic return for the bank. Our loan loss reserve is at a solid 2.45% of total loans to help offset the risk of future loan defaults. Chargeoffs for 2008 were high at over \$6 million, and a reflection of just how quickly pricing has fallen in Chicago. The bank was profitable in the face of all the challenges, earning \$2,316,000 for the year. At the holding company level, book value increased to end the year at \$92 per share.

### **Anniversary**

Our Riverwoods Bank celebrated its tenth year of operation on January 4, 2009. The Riverwoods Bank was profitable in the first 12 months of operation and today has grown to \$114 million in assets. Donna Fousekis and Bill Kivit were instrumental in the opening of the location and are celebrating their 10 years of service with the bank. We would like to also congratulate David Patterson, Chris Pinzger, Nvart Eksuzyan and Belinda Baier who have reached the 10 year anniversary milestone.

### **Preserving Value**

We have taken many steps to protect shareholder value, including a hiring freeze, minimal raises, no incentive or bonuses in the last two years and renegotiating with all major suppliers. Our goal for 2009 is to remain profitable, conserve capital, continue to build the loan loss reserve and collect our non-accrual loans. This will set the foundation for higher earnings, as we are used to, in future years.

We are certain that with your patience and support, NorthSide will continue to provide the communities it serves with *The Very Best In Banking*.

Sincerely,

Patricia A. Clausen  
Chairman

James S. Randall  
President