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MEMBER FDIC



2008

**FINANCIAL
REPORT**

FIRST HOPE
BANCORP
World-class service, close to home

CONSOLIDATED BALANCE SHEETS
December 31, 2008, 2007, 2006, 2005, and 2004
(In Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS					
Cash and Due from Banks	\$ 5,486	\$ 8,276	\$ 7,016	\$ 6,586	\$ 4,940
Interest Bearing					
Deposits with Banks	86	98	47	53	53
Federal Funds Sold	<u>—</u>	<u>3,304</u>	<u>2,290</u>	<u>2,187</u>	<u>2,122</u>
Cash and Cash Equivalents	5,572	11,678	9,353	8,826	7,115
Certificates of Deposit	8,715	5,985	8,983	8,995	12,993
Investment Securities	63,938	70,063	53,398	55,947	55,131
Loans Held for Sale	538	1,640	1,737	1,361	2,767
Loans	288,750	270,351	260,586	228,445	193,612
Less: Allowance for					
Loan Losses	<u>3,566</u>	<u>3,102</u>	<u>2,687</u>	<u>2,548</u>	<u>2,193</u>
Net Loans	285,184	267,249	257,899	225,897	191,419
Bank Premises and Equipment, Net	17,302	13,453	12,588	13,120	13,707
Accrued Interest Receivable	1,273	1,414	1,409	1,225	910
Cash Surrender Value	8,548	7,780	7,502	7,240	6,991
Other Assets	<u>2,752</u>	<u>2,381</u>	<u>2,246</u>	<u>1,779</u>	<u>1,457</u>
Total Assets	<u>\$ 393,822</u>	<u>\$ 381,643</u>	<u>\$ 355,115</u>	<u>\$ 324,390</u>	<u>\$ 292,490</u>
LIABILITIES					
Deposits:					
Non-Interest Bearing	\$ 65,848	\$ 71,911	\$ 70,216	\$ 64,592	\$ 56,675
Interest Bearing	<u>267,284</u>	<u>249,283</u>	<u>254,681</u>	<u>233,084</u>	<u>211,359</u>
Total Deposits	333,132	321,194	324,897	297,676	268,034
Other Borrowed Funds	25,776	27,398	—	—	—
Accrued Interest Payable	467	598	569	403	251
Other Liabilities	<u>5,375</u>	<u>3,893</u>	<u>3,390</u>	<u>2,608</u>	<u>1,951</u>
Total Liabilities	<u>364,750</u>	<u>353,083</u>	<u>328,856</u>	<u>300,687</u>	<u>270,236</u>
STOCKHOLDERS' EQUITY					
Common Stock — \$50 par value, 28,000 shares authorized, 15,000 shares issued & outstanding	750	750	750	750	750
Additional Paid-in Capital	3,148	3,148	3,148	3,148	3,148
Retained Earnings	28,263	25,550	23,567	21,215	18,860
Accumulated Other Comprehensive Income	<u>(1,087)</u>	<u>(117)</u>	<u>(435)</u>	<u>(639)</u>	<u>(413)</u>
	31,074	29,331	27,030	24,474	22,345
Less: Cost of					
Treasury Stock	<u>2,002</u>	<u>771</u>	<u>771</u>	<u>771</u>	<u>91</u>
Total Stockholders' Equity	<u>29,072</u>	<u>28,560</u>	<u>26,259</u>	<u>23,703</u>	<u>22,254</u>
Total Liabilities and Stockholders' Equity	<u>\$ 393,822</u>	<u>\$ 381,643</u>	<u>\$ 355,115</u>	<u>\$ 324,390</u>	<u>\$ 292,490</u>

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2008, 2007, 2006, 2005 and 2004
(In Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
INTEREST INCOME					
Interest and Fees on Loans	\$ 17,409	\$ 18,301	\$ 17,067	\$ 13,237	\$ 9,799
Investment Securities:					
Taxable	2,460	2,403	1,774	1,154	1,534
Tax-Exempt	626	544	615	559	481
Interest on Federal Funds Sold	42	394	207	267	118
Interest on Deposits with Banks	<u>334</u>	<u>420</u>	<u>336</u>	<u>338</u>	<u>345</u>
Total Interest Income	<u>20,871</u>	<u>22,062</u>	<u>19,999</u>	<u>15,555</u>	<u>12,277</u>
INTEREST EXPENSE					
Interest on Deposits	5,521	8,453	7,281	4,104	2,809
Interest on Borrowings	<u>561</u>	<u>617</u>	<u>63</u>	<u>4</u>	<u>(10)</u>
Total Interest Expense	<u>6,082</u>	<u>9,070</u>	<u>7,344</u>	<u>4,108</u>	<u>2,799</u>
Net Interest Income	14,789	12,992	12,655	11,447	9,478
Provision for Loan Losses	<u>541</u>	<u>544</u>	<u>477</u>	<u>360</u>	<u>215</u>
Net Interest Income after Provision for Loan Losses	<u>14,248</u>	<u>12,448</u>	<u>12,178</u>	<u>11,087</u>	<u>9,263</u>
OTHER INCOME					
Service Charges and Fees	3,686	3,473	3,242	3,523	3,123
Trust Department Income	1,282	1,050	857	764	758
Gain (Loss) on Sale of Securities, Net	26	32	4	(42)	(8)
Gain on Sale of Swap Contracts	80	—	—	—	—
Gain on Sale of Fixed Assets	<u>—</u>	<u>—</u>	<u>138</u>	<u>—</u>	<u>—</u>
Total Other Income	<u>5,074</u>	<u>4,555</u>	<u>4,241</u>	<u>4,245</u>	<u>3,873</u>
OTHER EXPENSES					
Salaries and Employee Benefits	9,612	8,782	7,733	6,945	5,844
Occupancy Expenses	1,105	1,079	1,058	1,038	878
Furniture and Equipment Expenses	1,407	1,457	1,387	1,471	1,355
Other Operating Expenses	<u>3,075</u>	<u>3,023</u>	<u>2,847</u>	<u>2,468</u>	<u>2,320</u>
Total Other Expenses	<u>15,199</u>	<u>14,341</u>	<u>13,025</u>	<u>11,922</u>	<u>10,397</u>
Income Before Income Taxes	4,123	2,662	3,394	3,410	2,739
Applicable Income Taxes	<u>1,201</u>	<u>534</u>	<u>891</u>	<u>908</u>	<u>832</u>
Net Income	2,922	2,128	2,503	2,502	1,907
Other Comprehensive Income, Net of Tax					
Unrealized (Losses) Gains on Securities, Net of Reclassification Adjustment	<u>(970)</u>	<u>318</u>	<u>204</u>	<u>(226)</u>	<u>(163)</u>
Comprehensive Income	<u>\$ 1,952</u>	<u>\$ 2,446</u>	<u>\$ 2,707</u>	<u>\$ 2,276</u>	<u>\$ 1,744</u>

CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2008, 2007, 2006, 2005, and 2004
(In Thousands, Except Share Data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Stockholders' Equity
Balance, December 31, 2003	\$ 750	\$ 3,148	\$ 17,067	\$ (250)	\$ (84)	\$ 20,631
Comprehensive income:						
Net income, 2004	—	—	1,907	—	—	1,907
Unrealized losses on securities, net of reclassification adjustment	—	—	—	(163)	—	(163)
Comprehensive income:						1,744
Purchase of 16 shares of common stock for treasury	—	—	—	—	(7)	(7)
Cash dividends declared (\$7.75 per share)	—	—	(114)	—	—	(114)
Balance, December 31, 2004	750	3,148	18,860	(413)	(91)	22,254
Comprehensive income:						
Net income, 2005	—	—	2,502	—	—	2,502
Unrealized losses on securities, net of reclassification adjustment	—	—	—	(226)	—	(226)
Comprehensive income						2,276
Purchase of 650.5 shares of common stock for treasury	—	—	—	—	(680)	(680)
Cash dividends declared (\$10.30 per share)	—	—	(147)	—	—	(147)
Balance, December 31, 2005	750	3,148	21,215	(639)	(771)	23,703
Comprehensive income:						
Net income, 2006	—	—	2,503	—	—	2,503
Unrealized gains on securities, net of reclassification adjustment	—	—	—	204	—	204
Comprehensive income						2,707
Cash dividends declared (\$10.75 per share)	—	—	(151)	—	—	(151)
Balance, December 31, 2006	750	3,148	23,567	(435)	(771)	26,259
Comprehensive income:						
Net income, 2007	—	—	2,128	—	—	2,128
Unrealized gains on securities, net of reclassification adjustment	—	—	—	318	—	318
Comprehensive income						2,446
Cash dividends declared (\$10.35 per share)	—	—	(145)	—	—	(145)
Balance, December 31, 2007	750	3,148	25,550	(117)	(771)	28,560
Comprehensive income:						
Net income, 2008	—	—	2,922	—	—	2,922
Unrealized losses on securities, net of reclassification adjustment	—	—	—	(970)	—	(970)
Comprehensive income						1,952
Purchase of 553 shares of common stock for treasury	—	—	—	—	(1,231)	(1,231)
Cash dividends declared (\$15.75 per share)	—	—	(209)	—	—	(209)
Balance, December 31, 2008	\$ 750	\$ 3,148	\$ 28,263	\$ (1,087)	\$ (2,002)	\$ 29,072



31 March 2009

Dear Friends of First Hope:

As our nation continues to navigate through extraordinarily challenging times, with careful study and prudent management First Hope will find and achieve significant results. In 2008, the bank attained record income of \$2.9 million resulting from total assets reaching \$393.8 million, an increase of 3.2%; loans growing 6.72% to \$285.2 million, with only \$2,944 in loans at least 30 days past due; and Financial Services gross income increasing 22.13% to \$1.28 million.

In 2008 the bank made several strategic investments in technology. Identifying communication and information management systems as opportunities to strengthen the bank, two were selected. The first, a corporate intranet, will enhance internal communication. The second, customer relationship management software, enables our associates bank-wide to see a common and complete picture of our customers.

The bank's leadership after careful consideration of the United States Treasury Department's TARP Capital Purchase Program for privately held banks elected not to request an infusion of capital in the form of preferred stock.

The aforementioned accomplishments and projects indicate a robust financial institution's laser-like focus on the needs of its customers, communities, and associates.

With abundant gratitude for your support, I remain

Sincerely,

*Norman E. Beatty
Chairman of the Board,
Chief Executive Officer, and President*

SCHEDULE OF CHANGES IN
ALLOWANCE FOR LOAN LOSSES
Years Ended December 31, 2008, 2007, 2006, 2005, and 2004
(In Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Balance, Beginning of Year	\$ 3,102	\$ 2,687	\$ 2,548	\$ 2,193	\$ 1,941
Charge-Offs	(82)	(130)	(71)	(11)	(5)
Recoveries	<u>5</u>	<u>1</u>	<u>23</u>	<u>6</u>	<u>42</u>
Net (Charge-Offs) Recoveries	(77)	(129)	(48)	(5)	37
Adjustments	—	—	(290)	—	—
Provision for Loan Losses	<u>541</u>	<u>544</u>	<u>477</u>	<u>360</u>	<u>215</u>
Balance, End of Year	<u>\$ 3,566</u>	<u>\$ 3,102</u>	<u>\$ 2,687</u>	<u>\$ 2,548</u>	<u>\$ 2,193</u>

Directors: Agnes R. Beatty
Norman E. Beatty
Everett A. Chamberlain
Owen D. Dykstra
Lawrence Mascera, Jr.
Robert F. Rokosz

SCHEDULE OF NON-PERFORMING ASSETS
December 31, 2008, 2007, 2006, 2005 and 2004
(In Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Loans Past Due 90 Days or More (Accruing)	\$ —	\$ —	\$ 488	\$ —	\$ —
Assets on Non-Accrual Status	\$ —	\$ —	\$ —	\$ —	\$ —
Restructured Loans	\$ —	\$ —	\$ —	\$ —	\$ —

*This statement has not been reviewed by the
Office of the Comptroller of the Currency.*