

# Northumberland Bancorp

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November 5, 2018

Dear Shareholder:

Your Company continued to grow during the third quarter of 2018. The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, reached \$531,936,000 as of September 30, 2018, compared to \$511,917,000 on September 30, 2017. Net loans, including loans held for sale, grew 5.02% over the past year to \$332,752,000 at September 30, 2018, compared to \$316,859,000 at the end of the third quarter of 2017. This growth is primarily in commercial loans. Funding this growth was an increase in deposits of 4.23% over the past twelve months to \$479,544,000 at September 30, 2018, from \$453,826,000 at September 30, 2017. The balance of the growth in loans was funded by a decrease in Interest Bearing Balances with Banks.

The Company's earnings have begun to rebound. Reported earnings for your Company for the quarter ended September 30, 2018, was \$852,000, an increase of \$125,000 or 17.2% from the prior year. Net interest income increased \$161,000 from the third quarter of 2017. The net interest margin was flat at 3.13%. Due to the loan growth, the bank provided an increase in its Allowance for Loan Losses of \$80,000. Non-interest income grew 7.3% from the third quarter of 2017, this included an increase of \$16,000 in Trust Department Income and a \$51,000 in other fee income. Non-interest expense increased \$130,000 or 3.8% from the third quarter of 2017. Approximately \$80,000 of the increase related to pension expense. On May 29, 2018 the board of directors of the bank elected to freeze the current defined benefit plan as of December 31, 2019 and replace it with an enhanced defined contribution plan.

The Bank's asset quality remains strong. Charge offs during the quarter were only .05% of average loans outstanding. The level of classified loans is low at 11.23% of tier one capital.

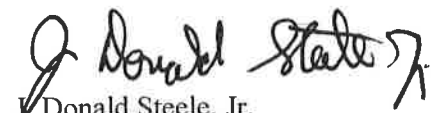
Your Bank remains well capitalized with a tier one leverage capital ratio of 10.23%. The bank's risk based capital ratios are also strong, with tier one capital to risk-weighted assets at 17.21%, and total risk based capital to risk-weighted assets at 18.20%. The bank's capital continues to remain above what is required to be considered a well-capitalized bank.

As I reported in the second quarter letter to shareholders, the Consent Order related to certain activities in the trust department was terminated during this quarter on August 21, 2018. I want to thank the entire professional staff and in particular the trust department team for the many late hours and weekends they committed to making the necessary improvements to terminate the order. We owe them a debt of gratitude for their sacrifices on behalf of the bank over the past two and a half years.

The bank continues to make progress on the growth plan that it established for 2018. At September 30, 2018, both asset and deposit growth were ahead of plan. Loan growth has trailed plan, but the back log of closed construction loans and commitments, when funded, should bring the loan outstanding back in line with plan.

We thank you, our shareholders, for your continued support.

Very truly yours,



J. Donald Steele, Jr.  
Chairman & President

**NORTHUMBERLAND BANCORP**  
**245 Front Street, Northumberland, PA**  
**For the Quarter Ending**  
**September 30, 2018 and 2017**  
**Amounts in thousands**

STATEMENT OF CONDITION (Unaudited)

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 6,634	\$ 6,410
Interest Bearing Balances with Banks	9,289	12,323
Investment Securities	147,394	147,589
Loans Held for Sale	892	1,797
Loans, net	341,179	317,965
Allowance for Loan Losses	(3,053)	(2,903)
Net Loans	<u>338,126</u>	<u>315,062</u>
Bank Premise and Equipment, Net	9,187	9,485
Accrued Interest Receivable	1,629	1,545
Other Assets	18,785	17,706
<b>TOTAL ASSETS</b>	<u><u>\$ 531,936</u></u>	<u><u>\$ 511,917</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:		
Non-interest Bearing	\$ 86,231	\$ 79,491
Interest Bearing	<u>393,313</u>	<u>380,594</u>
Total Deposits	479,544	460,085
Short Term Borrowing	0	0
Long Term Borrowing	0	0
Accrued Interest Payable	123	100
Other Liabilities	<u>3,638</u>	<u>2,182</u>
<b>TOTAL LIABILITIES</b>	483,305	462,367

Stockholders' Equity		
Preferred Stock-2,000,000 Shares Authorized;		
None Outstanding		
Common Stock-Par Value \$.10; 5,000,000 Authorized		
1,502,500 Issued	150	150
Surplus	3,832	3,832
Treasury Stock; 2018 - 174,642; 2017 - 174,142	(2,265)	(2,248)
Unrealized Gains (Loss) Available for Sale Securities	(2,619)	(333)
Comprehensive Income Adjustment	(2,156)	(1,662)
Minority Interest	(50)	(55)
Retained Earnings	<u>51,739</u>	<u>49,866</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>48,631</u>	<u>49,550</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 531,936</u></u>	<u><u>\$ 511,917</u></u>

**NORTHUMBERLAND BANCORP**  
**245 Front Street, Northumberland, PA**  
**For the Quarter Ending**  
**September 30, 2018 and 2017**  
**Amounts in thousands, except per share data**

STATEMENT OF INCOME (Unaudited)

	Quarter Ended		Nine Months Ended	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>INTEREST INCOME</b>				
Interest and Fees on Loans				
Taxable	\$ 3,845	\$ 3,521	\$ 11,060	\$ 10,047
Tax Exempt	68	66	193	201
Interest on Investment Securities				
Taxable	532	442	1,580	1,267
Tax Exempt	216	247	653	759
Dividends	57	42	179	130
Interest on Interest Bearing Balances with Banks	50	30	137	73
<b>TOTAL INTEREST INCOME</b>	<u>4,768</u>	<u>4,348</u>	<u>13,802</u>	<u>12,477</u>
<b>INTEREST EXPENSE</b>				
Deposits	1,007	747	2,786	2,033
Other	1	2	7	5
<b>TOTAL INTEREST EXPENSE</b>	<u>1,008</u>	<u>749</u>	<u>2,793</u>	<u>2,038</u>
<b>NET INTEREST INCOME</b>	<u>3,760</u>	<u>3,599</u>	<u>11,009</u>	<u>10,439</u>
Loan Loss Provision	80	50	259	227
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISION</b>	<u>3,680</u>	<u>3,549</u>	<u>10,750</u>	<u>10,212</u>
<b>OTHER INCOME</b>				
Change in Fair Value of Equity Securities	3	0	1	0
Gain (Loss) on Sale of Securities	(0)	9	(13)	(2)
Service Charges on Deposit Accounts	102	111	299	313
Gain (Loss) on Loans Held for Sale	110	121	333	439
Other Noninterest Income	490	418	1,428	1,283
Trust Department Income	201	185	560	444
<b>TOTAL OTHER INCOME</b>	<u>906</u>	<u>844</u>	<u>2,608</u>	<u>2,477</u>
<b>OTHER EXPENSES</b>				
Salaries and Benefits	1,985	1,817	6,018	5,463
Occupancy Expenses	435	430	1,325	1,275
Other	1,176	1,219	3,604	3,773
<b>TOTAL OTHER EXPENSES</b>	<u>3,596</u>	<u>3,466</u>	<u>10,947</u>	<u>10,511</u>
<b>INCOME BEFORE INCOME TAXES</b>	990	927	2,411	2,178
Income Taxes	138	200	297	363
<b>NET INCOME</b>	<u>\$ 852</u>	<u>\$ 727</u>	<u>\$ 2,114</u>	<u>\$ 1,815</u>
Earnings per share	<u>\$ 0.64</u>	<u>\$ 0.55</u>	<u>\$ 1.59</u>	<u>\$ 1.37</u>
Weighted Average Shares Outstanding	1,328,244	1,328,358	1,328,320	1,328,358