

Northumberland Bancorp

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September 5, 2018

Dear Shareholder:

I am happy to report that on August 21, 2018, the Comptroller of the Currency lifted the consent order that the bank had entered into on May 5, 2016. Termination of the order will remove certain restrictions that had been in place while the bank was remediating the issues outlined in the order. More importantly it will allow the bank to reduce or eliminate remediation-related expenses that the bank had been incurring over the past two years.

Your Company continued to grow during the second quarter of 2018. The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, reached \$524,766,000 as of June 30, 2018, compared to \$504,913,000 on June 30, 2017. Net loans, including loans held for sale, grew 5.97% over the past year to \$332,752,000 at June 30, 2018, compared to \$314,012,000 at the end of the second quarter of 2017. This growth is primarily in commercial loans. Funding this growth was an increase in deposits of 4.26% over the past twelve months to \$473,170,000 at June 30, 2018, from \$453,826,000 at June 30, 2017. The balance of the growth in loans was funded by a decrease in Investment Securities.

Reported earnings for your Company for the quarter ended June 30, 2018, was \$638,000, an increase of \$177,000 from the prior year. Net interest income increased \$166,000 from the second 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 \$144,000. Non-interest income grew 8.65% from the second quarter of 2017, this included an increase of \$72,000 or 69.9% increase in Trust Department Income. This increase was offset by a drop in gains on the sale of loans and a charge for the decrease in marketable equity securities that was previously accounted for through comprehensive income. Non-interest expense increased \$38,000. The increase in non-interest expense involves an increase in salaries and benefits of \$229,000 due to the growth in staff to drive and manage the bank's growth. This increase was substantially offset by a decrease in Other Expenses of \$203,000, primarily due to a reduction in the cost associated with remediation of the provisions of the consent order.

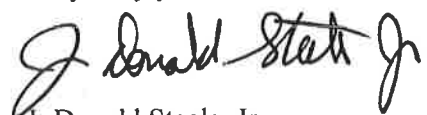
The Bank's asset quality remains strong. Charge offs during the quarter were only .03% of average loans outstanding. The level of classified loans is low at 12.78% of tier one capital.

Your Bank remains well capitalized with a tier one leverage capital ratio of 10.18%. The bank's risk based capital ratios are also strong, with tier one capital to risk-weighted assets at 17.35%, and total risk based capital to risk-weighted assets at 18.35%. The bank's capital continues to remain above what is required to be considered a well-capitalized bank.

The bank continues to make progress on the growth plan that it established for 2018. At June 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
June 30, 2018 and 2017
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and Due From Banks	\$ 5,894	\$ 5,892
Interest Bearing Balances with Banks	8,584	7,617
Investment Securities	148,571	149,904
Loans Held for Sale	1,048	1,195
Loans, net	334,744	315,736
Allowance for Loan Losses	<u>(3,040)</u>	<u>(2,919)</u>
Net Loans	331,704	312,817
Bank Premise and Equipment, Net	9,184	9,509
Accrued Interest Receivable	1,629	1,395
Other Assets	18,152	16,584
TOTAL ASSETS	\$ <u>524,766</u>	\$ <u>504,913</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:

Non-interest Bearing	\$ 84,755	\$ 81,087
Interest Bearing	<u>388,415</u>	<u>372,739</u>
Total Deposits	473,170	453,826
Short Term Borrowing	0	0
Long Term Borrowing	0	0

Accrued Interest Payable	120	97
Other Liabilities	<u>3,016</u>	<u>1,877</u>
TOTAL LIABILITIES	476,306	455,800

Stockholders' Equity

Preferred Stock-2,000,000 Shares Authorized;

 None Outstanding

Common Stock-Par Value \$.10; 5,000,000 Authorized

 1,502,500 Issued

Surplus	150	150
Treasury Stock; 2018 - 174,142; 2017 - 174,142	3,832	3,832
Unrealized Gains (Loss) Available for Sale Securities	<u>(2,248)</u>	<u>(2,248)</u>
Comprehensive Income Adjustment	(2,192)	(297)
Minority Interest	(2,156)	(1,662)
Retained Earnings	(52)	(56)
TOTAL STOCKHOLDERS' EQUITY	51,126	49,394

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>524,766</u>	\$ <u>504,913</u>
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NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
June 30, 2018 and 2017
Amounts in thousands, except per share data

STATEMENT OF INCOME (Unaudited)

	Quarter Ended		Six Months Ended	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
INTEREST INCOME				
Interest and Fees on Loans				
Taxable	\$ 3,683	\$ 3,348	\$ 7,214	\$ 6,526
Tax Exempt	64	67	125	135
Interest on Investment Securities				
Taxable	550	454	1,048	826
Tax Exempt	215	252	437	512
Dividends	61	45	123	88
Interest on Interest Bearing Balances with Banks	54	26	87	43
TOTAL INTEREST INCOME	<u>4,627</u>	<u>4,192</u>	<u>9,034</u>	<u>8,130</u>
INTEREST EXPENSE				
Deposits	944	674	1,780	1,287
Other	1	2	5	3
TOTAL INTEREST EXPENSE	<u>945</u>	<u>676</u>	<u>1,785</u>	<u>1,290</u>
NET INTEREST INCOME	<u>3,682</u>	<u>3,516</u>	<u>7,249</u>	<u>6,840</u>
Loan Loss Provision	144	177	179	177
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>3,538</u>	<u>3,339</u>	<u>7,070</u>	<u>6,663</u>
OTHER INCOME				
Change in Fair Value of Equity Securities	8	0	(3)	0
Gain (Loss) on Sale of Securities	(12)	2	(13)	(12)
Service Charges on Deposit Accounts	107	107	197	201
Gain (Loss) on Loans Held for Sale	99	157	223	319
Other Noninterest Income	490	429	939	866
Trust Department Income	175	103	359	259
TOTAL OTHER INCOME	<u>867</u>	<u>798</u>	<u>1,702</u>	<u>1,633</u>
OTHER EXPENSES				
Salaries and Benefits	2,017	1,788	4,032	3,644
Occupancy Expenses	439	427	890	845
Other	1,228	1,431	2,427	2,548
TOTAL OTHER EXPENSES	<u>3,684</u>	<u>3,646</u>	<u>7,349</u>	<u>7,037</u>
INCOME BEFORE INCOME TAXES	721	491	1,423	1,259
Income Taxes	83	30	161	164
NET INCOME	<u>\$ 638</u>	<u>\$ 461</u>	<u>\$ 1,262</u>	<u>\$ 1,095</u>
Earnings per share	<u>\$ 0.48</u>	<u>\$ 0.35</u>	<u>\$ 0.95</u>	<u>\$ 0.82</u>
Weighted Average Shares Outstanding	1,328,358	1,328,358	1,328,358	1,328,358