

Northumberland Bancorp

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June 4, 2018

Dear Shareholder:

Your Company continued to grow during the first quarter of 2018. The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, reached \$514,355,000 as of March 31, 2018, compared to \$496,059,000 on March 31, 2017. Net loans, including loans held for sale, grew 8.53% over the past year to \$325,903,000 at March 31, 2018 compared to \$300,294,000 at the end of the first quarter of 2017. This growth is primarily in commercial loans. Funding this growth was an increase in deposits of 3.92% over the past twelve months to \$463,116,000 at March 31, 2018, from \$445,664,000 at March 31, 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 March 31, 2018 was \$624,000, a decrease of \$10,000 from the prior year. Net interest income increased \$243,000 from the first quarter of 2017. The net interest margin grew to 3.13% from 3.07% in the prior year. Due to the loan growth the bank provided an increase in its Allowance for Loan Losses of \$35,000. Non-interest income was generally flat, but saw a 17.9% increase in Trust Department Income, which 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 \$278,000. The increase in non-interest expense involves growth in staff to drive and manage the banks growth as it exceeds \$500 million in total assets.

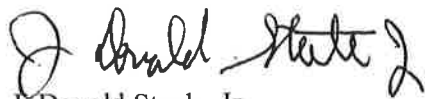
The Bank's asset quality remains strong. Charge offs during the quarter were only .01% of average loans outstanding. The level of classified loans is low at 11.3% of tier one capital.

Your Bank remains well capitalized with a tier one leverage capital ratio of 10.22%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 17.62%, and total risk based capital to risk-weighted assets at 18.61%.

In our annual report, we highlighted that one of the company's key strategies is to take advantage of market conditions to grow the bank and improve profitability over the next several years. Competitor disruptions resulting from recent acquisitions by out-of-state banks, the healthy national and regional economy, along with the repeal of unnecessary regulation on community banks, create a unique near-term opportunity to grow your bank. We are off to a good start in 2018 with asset growth and net income in line with our growth budget. While closed loans lagged in early 2018, loans are projected to return to plan later this year once already approved loans are closed and other commitments fully disburse.

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
March 31, 2018 and 2017
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and Due From Banks	\$ 6,705	\$ 7,775
Interest Bearing Balances with Banks	6,988	6,240
Investment Securities	145,451	153,999
Loans Held for Sale	152	752
Loans, net	328,688	302,311
Allowance for Loan Losses	(2,937)	(2,769)
Net Loans	<u>325,751</u>	<u>299,542</u>
Bank Premise and Equipment, Net	9,271	9,662
Accrued Interest Receivable	1,550	1,386
Other Assets	18,487	16,703
TOTAL ASSETS	<u>\$ 514,355</u>	<u>\$ 496,059</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest Bearing	\$ 84,096	\$ 77,048
Interest Bearing	379,020	368,616
Total Deposits	<u>463,116</u>	<u>445,664</u>
Long Term Borrowing	0	0
Accrued Interest Payable	122	98
Other Liabilities	2,789	1,777
TOTAL LIABILITIES	<u>466,027</u>	<u>447,539</u>
 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, 174,142; 2017, 174,142	(2,248)	(2,248)
Unrealized Gains (Loss) Available for Sale Securities	(1,926)	(675)
Comprehensive Income Adjustment	(2,156)	(1,662)
Minority Interest	(52)	(57)
Retained Earnings	50,728	49,180
TOTAL STOCKHOLDERS' EQUITY	<u>48,328</u>	<u>48,520</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 514,355</u>	<u>\$ 496,059</u>

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
March 31, 2018 and 2017
Amounts in thousands, except for per share data

STATEMENT OF INCOME (Unaudited)

	Quarter Ended	
	<u>2018</u>	<u>2017</u>
INTEREST INCOME		
Interest and Fees on Loans		
Taxable	\$ 3,531	\$ 3,179
Tax Exempt	61	67
Interest on Investment Securities		
Taxable	498	372
Tax Exempt	222	261
Dividends	62	42
Interest on Interest Bearing Balances with Banks	33	17
TOTAL INTEREST INCOME	<u>4,407</u>	<u>3,938</u>
INTEREST EXPENSE		
Deposits	836	612
Other	4	2
TOTAL INTEREST EXPENSE	<u>840</u>	<u>614</u>
NET INTEREST INCOME	3,567	3,324
Loan Loss Provision	35	0
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>3,532</u>	<u>3,324</u>
OTHER INCOME		
Change in Fair Value of Equity Securities	(11)	-
Gain (Loss) on Sale of Securities	(1)	(13)
Service Charges on Deposit Accounts	91	94
Gain (Loss) on Loans Held for Sale	124	161
Other	449	437
Trust Department Income	184	156
TOTAL OTHER INCOME	<u>836</u>	<u>835</u>
OTHER EXPENSES		
Salaries and Benefits	2,012	1,856
Occupancy Expenses	451	418
Other	1,203	1,117
TOTAL OTHER EXPENSES	<u>3,666</u>	<u>3,391</u>
INCOME BEFORE INCOME TAXES	702	768
Income Taxes	78	134
NET INCOME	<u>\$ 624</u>	<u>\$ 634</u>
Earnings per share	\$ 0.47	\$ 0.48
Weighted Average Shares Outstanding	1,328,358	1,328,358