

Northumberland Bancorp

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November 19, 2019

Dear Shareholder:

Your Company continues to execute our strategic plan by growing both assets and earnings. Total assets grew to \$543.8 million at September 30, 2019, a 2.22% increase from September 30, 2018. Gross loans increased \$28.3 million or 8.3% from 2018. The increase was split between commercial (67%) and retail loans (33%). The loan growth was funded by decreases in investment securities, interest bearing balances with banks and growth in deposits.

Reported earnings for your Company, for the quarter ended September 30, 2019, was \$1,085,000, an increase of \$233,000 or 27.3% from the prior year. Net interest income increased \$291,000 over the second quarter of 2018. The net interest margin improved from 3.13% in 2018 to 3.33% in 2019. Due to the loan growth, the bank provided an increase in its Allowance for Loan Losses of \$46,000. Non-interest income increased \$186,000 or 20.5%. The increase was spread among various components including mortgage banking, wealth management and debit card income. Non-interest expense increased \$140,000. The increase in non-interest expense involves growth in staff related to executing the strategic plan and general compensation and benefit cost increases.

The Bank's asset quality remains strong. Charged off loan balances during the quarter were only .01% of average loans outstanding. The level of classified loans is low at 9.6% of tier one capital.

Your Bank remains well capitalized with a tier one leverage capital ratio of 10.34%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 16.71%, and total risk based capital to risk-weighted assets at 17.73%.

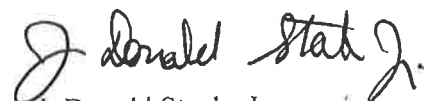
We are excited to update you on our ongoing enhancements to our electronic banking products and capabilities. Later in 2019 and early 2020, we plan to replace our ATMs with updated machines that provide for non-envelope deposits as well as immediate item imaging. They will also be equipped with additional self service capabilities that we may introduce over time. We are on the roadmap to introduce contactless cards, which will enhance the security of our debit cards as well. In 2020, we will be replacing our branch capture machines with teller capture versions, which will improve operating efficiency.

Our growth strategy is designed to enhance future profitability. An essential component of that effort is the continued training and development of frontline staff training in order to broaden their customer service skills. This will result in a more effective and efficient delivery of products and services through our community offices.

As previously noted, the bank terminated its defined benefit pension plan as of June 30, 2019. The impact on the company's financial statements is being finalized, however a charge is expected in the fourth quarter as interest rates have declined over the year and the cost of purchasing annuities will be more than expected.

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, 2019 and 2018
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Due From Banks	\$ 5,659	\$ 6,634
Interest Bearing Balances with Banks	10,742	9,289
Investment Securities	132,080	147,394
Loans Held for Sale	1,089	892
Loans	369,473	341,179
Allowance for Loan Losses	(3,393)	(3,053)
Net Loans	<u>366,080</u>	<u>338,126</u>
Bank Premise and Equipment, Net	9,247	9,187
Accrued Interest Receivable	1,618	1,629
Other Assets	17,260	18,785
TOTAL ASSETS	<u>\$ 543,775</u>	<u>\$ 531,936</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:		
Non-interest Bearing	\$ 93,570	\$ 86,231
Interest Bearing	391,629	393,313
Total Deposits	<u>485,199</u>	<u>479,544</u>
Short Term Borrowing	0	0
Long Term Borrowing	0	0
Accrued Interest Payable	145	123
Other Liabilities	2,827	3,638
TOTAL LIABILITIES	<u>488,171</u>	<u>483,305</u>

Stockholders' Equity		
Preferred Stock-2,000,000 Shares Authorized;		
None Outstanding		
Common Stock-Par Value \$0.10; 5,000,000 Authorized		
1,502,500 Issued	150	150
Surplus	3,832	3,832
Treasury Stock; 2019 - 174,642; 2018 - 174,142	(2,265)	(2,265)
Unrealized Gains (Loss) Available for Sale Securities	439	(2,619)
Comprehensive Income Adjustment	(722)	(2,156)
Minority Interest	(45)	(50)
Retained Earnings	<u>54,215</u>	<u>51,739</u>
TOTAL STOCKHOLDERS' EQUITY	<u>55,604</u>	<u>48,631</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 543,775</u>	<u>\$ 531,936</u>

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
September 30, 2019 and 2018
Amounts in thousands, except per share data

STATEMENT OF INCOME (Unaudited)	Quarter Ended		9 Months Ended	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
INTEREST INCOME				
Interest and Fees on Loans				
Taxable	4,240	\$ 3,845	\$ 12,331	\$ 11,060
Tax Exempt	102	68	287	193
Interest on Investment Securities				
Taxable	543	532	1,662	1,580
Tax Exempt	194	216	595	653
Dividends	62	57	193	179
Interest on Interest Bearing Balances with Banks	42	50	142	137
TOTAL INTEREST INCOME	<u>5,183</u>	<u>4,768</u>	<u>15,210</u>	<u>13,802</u>
INTEREST EXPENSE				
Deposits	1,130	1,007	3,314	2,786
Other	2	1	9	7
TOTAL INTEREST EXPENSE	<u>1,132</u>	<u>1,008</u>	<u>3,323</u>	<u>2,793</u>
NET INTEREST INCOME	<u>4,051</u>	<u>3,760</u>	<u>11,887</u>	<u>11,009</u>
Loan Loss Provision	126	80	254	259
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>3,925</u>	<u>3,680</u>	<u>11,633</u>	<u>10,750</u>
OTHER INCOME				
Change in Fair Value of Equity Securities	1	3	27	1
Gain (Loss) on Sale of Securities	30	(0)	58	(13)
Service Charges on Deposit Accounts	96	102	277	299
Gain (Loss) on Loans Held for Sale	193	110	423	333
Other Noninterest Income	553	490	1,477	1,428
Trust Department Income	219	201	640	560
TOTAL OTHER INCOME	<u>1,092</u>	<u>906</u>	<u>2,902</u>	<u>2,608</u>
OTHER EXPENSES				
Salaries and Benefits	2,104	1,985	6,338	6,018
Occupancy Expenses	428	435	1,295	1,325
Other	1,204	1,176	3,744	3,604
TOTAL OTHER EXPENSES	<u>3,736</u>	<u>3,596</u>	<u>11,377</u>	<u>10,947</u>
INCOME BEFORE INCOME TAXES	1,281	990	3,158	2,411
Income Taxes	196	138	450	297
NET INCOME	<u>\$ 1,085</u>	<u>\$ 852</u>	<u>\$ 2,708</u>	<u>\$ 2,114</u>
Earnings per share	<u>\$ 0.82</u>	<u>\$ 0.64</u>	<u>\$ 2.04</u>	<u>\$ 1.59</u>
Weighted Average Shares Outstanding	1,327,858	1,328,244	1,327,858	1,328,320