

# Northumberland Bancorp

245 Front Street • P.O. Box 271 • Northumberland, PA 17857  
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September 3, 2019

Dear Shareholder:

The Company continues to grow both assets and earnings, which is the focus of our strategic plan. Total assets grew to \$534.5 million at June 30, 2019, a 1.85% increase from June 30, 2018. Gross loans increased \$27 million or 8.1% 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 bank, and growth in deposits.

Reported earnings for your Company for the quarter ended June 30, 2019 was \$767,000, an increase of \$129,000 or 20.2% from the prior year. Net interest income increased \$249,000 over the second quarter of 2019. The net interest margin remained stable at 3.16%. Due to the loan growth, the bank provided an increase in its Allowance for Loan Losses of \$82,000. Non-interest income increased \$56,000 or 6.5%. The increase was spread among various components of non-interest income. Non-interest expense increased \$202,000. The increase in non-interest expense involves growth in staff and general compensation and benefits and residual costs related to regulatory matters.

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 10.1% of tier one capital.

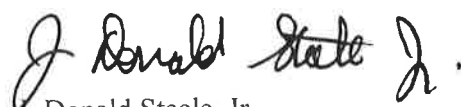
Your Bank remains well capitalized with a tier one leverage capital ratio of 10.26%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 16.65%, and total risk based capital to risk-weighted assets at 17.64%.

We are excited to note our continued additions to our electronic banking offerings. Later in 2019, we will be replacing 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 involving our debit cards as well.

We will continue with our growth strategy that we feel will allow us to enhance future profitability. Part of that effort will be the continued concentration of frontline staff training to broaden their skill sets to be able to routinely do more tasks and provide more services, with the goal being to greatly enhance the efficiency and cost structure of our community offices.

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, 2019 and 2018**  
**Amounts in thousands**

STATEMENT OF CONDITION (Unaudited)

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 4,659	\$ 5,894
Interest Bearing Balances with Banks	5,767	8,584
Investment Securities	136,065	148,571
Loans Held for Sale	851	1,048
Loans	361,978	334,744
Allowance for Loan Losses	(3,266)	(3,040)
Net Loans	<u>358,712</u>	<u>331,704</u>
Bank Premise and Equipment, Net	9,356	9,184
Accrued Interest Receivable	1,721	1,629
Other Assets	17,341	18,152
<b>TOTAL ASSETS</b>	<u>\$ 534,472</u>	<u>\$ 524,766</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Deposits:

Non-interest Bearing	\$ 97,353	\$ 84,755
Interest Bearing	379,980	388,415
<b>Total Deposits</b>	<u>477,333</u>	<u>473,170</u>
Short Term Borrowing	0	0
Long Term Borrowing	0	0

Accrued Interest Payable	140	120
Other Liabilities	2,457	3,016

<b>TOTAL LIABILITIES</b>	<u>479,930</u>	<u>476,306</u>
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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

Surplus	150	150
Treasury Stock; 2019 - 174,642; 2018 - 174,142	3,832	3,832
Unrealized Gains (Loss) Available for Sale Securities	(2,265)	(2,248)
Comprehensive Income Adjustment	189	(2,192)
Minority Interest	(722)	(2,156)
Retained Earnings	(51)	(52)
	<u>53,409</u>	<u>51,126</u>

<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>54,542</u>	<u>48,460</u>
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<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 534,472</u>	<u>\$ 524,766</u>
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**NORTHUMBERLAND BANCORP**  
**245 Front Street, Northumberland, PA**  
**For the Quarter Ending**  
**June 30, 2019 and 2018**  
**Amounts in thousands, except per share data**

STATEMENT OF INCOME (Unaudited)	Quarter Ended		6 Months Ended	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>INTEREST INCOME</b>				
Interest and Fees on Loans				
Taxable	4,087 \$	3,683 \$	8,091 \$	7,214
Tax Exempt	97	64	185	125
Interest on Investment Securities				
Taxable	545	550	1,119	1,048
Tax Exempt	194	215	402	437
Dividends	66	61	130	123
Interest on Interest Bearing Balances with Banks	57	54	100	87
<b>TOTAL INTEREST INCOME</b>	<u>5,046</u>	<u>4,627</u>	<u>10,027</u>	<u>9,034</u>
<b>INTEREST EXPENSE</b>				
Deposits	1,114	944	2,184	1,780
Other	1	1	7	5
<b>TOTAL INTEREST EXPENSE</b>	<u>1,115</u>	<u>945</u>	<u>2,191</u>	<u>1,785</u>
<b>NET INTEREST INCOME</b>	<u>3,931</u>	<u>3,682</u>	<u>7,836</u>	<u>7,249</u>
Loan Loss Provision	82	144	127	179
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISION</b>	<u>3,849</u>	<u>3,538</u>	<u>7,709</u>	<u>7,070</u>
<b>OTHER INCOME</b>				
Change in Fair Value of Equity Securities	22	8	26	(3)
Gain (Loss) on Sale of Securities	22	(12)	28	(13)
Service Charges on Deposit Accounts	94	107	181	197
Gain (Loss) on Loans Held for Sale	94	99	230	223
Other Noninterest Income	462	490	924	939
Trust Department Income	229	175	421	359
<b>TOTAL OTHER INCOME</b>	<u>923</u>	<u>867</u>	<u>1,810</u>	<u>1,702</u>
<b>OTHER EXPENSES</b>				
Salaries and Benefits	2,124	2,017	4,234	4,032
Occupancy Expenses	424	439	867	890
Other	1,338	1,228	2,540	2,427
<b>TOTAL OTHER EXPENSES</b>	<u>3,886</u>	<u>3,684</u>	<u>7,641</u>	<u>7,349</u>
<b>INCOME BEFORE INCOME TAXES</b>	886	721	1,878	1,423
Income Taxes	119	83	255	161
<b>NET INCOME</b>	<u>\$ 767</u>	<u>\$ 638</u>	<u>\$ 1,623</u>	<u>\$ 1,262</u>
Earnings per share	<u>\$ 0.58</u>	<u>\$ 0.48</u>	<u>\$ 1.22</u>	<u>\$ 0.95</u>
Weighted Average Shares Outstanding	1,327,858	1,328,358	1,327,858	1,328,358