

# Northumberland Bancorp

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245 Front Street • P.O. Box 271 • Northumberland, PA 17857  
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November 13, 2017

Dear Shareholder:

Your Company continued to grow during the third quarter of 2017. The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, grew during the quarter ended September 30, 2017, and reached \$511,917,000 compared to \$498,408,000 on September 30, 2016. Net loans, including loans held for sale, grew 5.9% over the past year to \$316,859,000 at September 30, 2017, compared to \$299,191,000 at September 30, 2016. Driving this growth were increases in commercial loans. In order to take full advantage of opportunities in our markets to continue this growth, during the third quarter the Bank welcomed Thomas Rall as Vice President-Commercial Loans as an addition to the Commercial Banking team. Funding this growth was an increase in deposits of 2.71% over the past twelve months to \$460,085,000 at September 30, 2017 from \$447,939,000 at September 30, 2016. The balance of the growth in loans was funded by a decrease in Investment Securities.

Your company reported earnings for the quarter ended September 30, 2017 of \$727,000, a decrease of \$38,000 from the prior year. There were several factors both positive and negative that impacted earnings during the quarter. Net interest income increased \$208,000 or 6.1%. The provision for loan losses increased \$24,000, which is in recognition of the growth in loans. Non-interest income declined \$122,000 of which \$111,000 related to a drop in the gain on sale of mortgages. Non-interest expense increased a modest percentage by 2.09% to \$3,466,000. Additionally the tax provision increased \$29,000 to \$200,000 as the bank is adjusting its tax provision to reduce the impact of Alternative Minimum Tax.

The Bank's asset quality remains strong. Charge offs during the quarter were only .02% of average loans outstanding. The level of classified loans is low at 11.6% of tier one capital.

Your Bank remains well capitalized with a tier one leverage capital ratio of 10.28%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 18.22%, and total risk based capital to risk-weighted assets at 19.25%.

We are very happy to welcome Robert "Bob" Crane as Chief Financial Officer for the bank. Bob has quickly immersed himself into this very important role and is already proving to be a valuable addition to the senior management ranks of the bank. His addition completes certain planned steps to enhance the talent characteristics and depth of the management team of the bank, providing for the continued success of your Company.

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, 2017 and 2016**  
**Amounts in thousands**

STATEMENT OF CONDITION (Unaudited)

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 6,410	\$ 6,573
Interest Bearing Balances with Banks	12,323	11,632
Investment Securities	147,589	154,091
Loans Held for Sale	1,797	1,696
Loans, Net	317,965	300,233
Allowance for Loan Losses	(2,903)	(2,738)
Net Loans	<u>315,062</u>	<u>297,495</u>
Bank Premise and Equipment, Net	9,485	9,828
Accrued Interest Receivable	1,545	1,421
Other Assets	17,706	15,672
<b>TOTAL ASSETS</b>	<b><u>\$ 511,917</u></b>	<b><u>\$ 498,408</u></b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Non-interest Bearing	\$ 79,491	\$ 71,133
Interest Bearing	<u>380,594</u>	<u>376,806</u>
Total Deposits	460,085	447,939
Short Term Borrowing	0	0
Long Term Borrowing	0	0
Accrued Interest Payable	100	91
Other Liabilities	<u>2,182</u>	<u>1,327</u>
<b>TOTAL LIABILITIES</b>	<b><u>462,367</u></b>	<b><u>449,357</u></b>
 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; 174,142 - 2017, 174,142 - 2016	(2,248)	(2,248)
Unrealized Gains (Loss) Available for Sale Securities	(333)	779
Comprehensive Income Adjustment	(1,662)	(1,565)
Minority Interest	(55)	(60)
Retained Earnings	<u>49,866</u>	<u>48,163</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>49,550</u></b>	<b><u>49,051</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 511,917</u></b>	<b><u>\$ 498,408</u></b>

**NORTHUMBERLAND BANCORP**  
**245 Front Street, Northumberland, PA**  
**For the Quarter Ending**  
**September 30, 2017 and 2016**  
**Amounts in thousands, except per share data**

STATEMENT OF INCOME (Unaudited)

	Quarter Ended		Nine Months Ended	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>INTEREST INCOME</b>				
Interest and Fees on Loans				
Taxable	\$ 3,521	\$ 3,252	\$ 10,047	\$ 9,605
Tax Exempt	66	67	201	193
Interest on Investment Securities				
Taxable	442	326	1,267	891
Tax Exempt	247	297	759	969
Dividends	42	40	130	123
Interest on Interest Bearing Balances with Banks	30	11	73	35
<b>TOTAL INTEREST INCOME</b>	<u>4,348</u>	<u>3,993</u>	<u>12,477</u>	<u>11,816</u>
<b>INTEREST EXPENSE</b>				
Deposits	747	600	2,033	1,792
Other	2	2	5	5
<b>TOTAL INTEREST EXPENSE</b>	<u>749</u>	<u>602</u>	<u>2,038</u>	<u>1,797</u>
<b>NET INTEREST INCOME</b>	<u>3,599</u>	<u>3,391</u>	<u>10,439</u>	<u>10,019</u>
Loan Loss Provision	50	26	227	153
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISION</b>	<u>3,549</u>	<u>3,365</u>	<u>10,212</u>	<u>9,866</u>
<b>OTHER INCOME</b>				
Gain (Loss) on Sale of Securities	9	13	(2)	139
Service Charges on Deposit Accounts	111	95	313	279
Gain (Loss) on Loans Held for Sale	121	232	439	499
Other Service Charges	418	455	1,283	1,222
Trust Department Income	185	171	444	439
<b>TOTAL OTHER INCOME</b>	<u>844</u>	<u>966</u>	<u>2,477</u>	<u>2,578</u>
<b>OTHER EXPENSES</b>				
Salaries and Benefits	1,817	1,667	5,463	5,009
Occupancy Expenses	430	400	1,275	1,232
Other	1,219	1,328	3,773	3,838
<b>TOTAL OTHER EXPENSES</b>	<u>3,466</u>	<u>3,395</u>	<u>10,511</u>	<u>10,079</u>
<b>INCOME BEFORE INCOME TAXES</b>	927	936	2,178	2,365
Income Taxes	200	171	363	353
<b>NET INCOME</b>	<u>\$ 727</u>	<u>\$ 765</u>	<u>\$ 1,815</u>	<u>\$ 2,012</u>
Earnings per share	<u>\$ 0.55</u>	<u>\$ 0.58</u>	<u>\$ 1.37</u>	<u>\$ 1.51</u>
Weighted Average Shares Outstanding	1,328,358	1,328,358	1,328,358	1,328,358