Northumberland Bancorp

245 Front Street • P.O. Box 271 • Northumberland, PA 17857 (570) 473-3531 Fax (570) 473-9697

August 28, 2015

Dear Shareholder:

Your company's assets grew for the twelve month period ended June 30, 2015, reaching \$477,977,000, which was an increase of .65% from June 30, 2014. Net loans, including loans held for sale, were \$276,485,000 at June 30, 2015, compared to \$253,143,000 at June 30, 2014 or an increase of 9.22%. Deposits decreased slightly to \$429,782,000 at June 30, 2015 from \$431,612,000 in 2014.

Northumberland Bancorp, parent company of The Northumberland National Bank, reported earnings for the quarter ended June 30, 2015 of \$727,000. Net interest margin improved from 2.89% in 2014 to 2.97% in 2015. While the low interest rate environment continues to provide challenges, the bank was able to take some measures to enhance our margin. Average loans in the quarter increased to \$280,586,000 from \$265,975,000 in the second quarter of 2014. The percentage of loans to assets increased to 57.87% in 2015 from 54.67% in June of 2014.

The bank's past due loans and loans on non-accrual status of 1.38% continued to be below the national peer group. The provision for loan loss in the quarter increased to \$210,000 for the quarter ended June 30, 2015 compared to \$33,000 in the second quarter of 2014. The increase was due to the impairment loss taken on a loan to one customer which is experiencing financial difficulties.

Your bank's capital remains strong with a tier one leverage capital ratio of 9.99%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 19.28%, and total risk based capital to risk-weighted assets at 20.40%.

Non-interest income was \$1,120,000 for the quarter ended June 30, 2015, compared to \$867,000 for the quarter ended June 30, 2014. This increase was primarily the result of the bank's receipt of proceeds from a bank owned life insurance policy.

Non-interest expense increased \$455,000 from the second quarter of 2014. Various factors contributed to the increase, including increases in salaries and benefits, and professional fees related to the bank's investigation of certain trust department activities. Additional costs related to the implementation of a managed computer environment, to better address risks from cyber security threats, and maintain a more stable computer environment, also contributed to the increased expenses.

We are looking forward to the opening of our new Selinsgrove Office planned for October 2015.

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, 2015 and 2014

Amounts in thousands

| ASSETS 2015 2014 Cash and Due From Banks \$ 4,154 \$ 4,602 Interest Bearing Balances with Banks 5,073 9,782 Investment Securities 165,698 184,445 Loans Held for Sale 391 1,160 Loans, net 278,907 254,427 Allowance for Loan Losses (2,813) (2,444) Net Loans 276,094 251,983 Bank Premise and Equipment, Net 9,356 8,361 Accrued Interest Receivable 1,634 1,634 Other Assets 15,577 12,926 TOTAL ASSETS 477,977 474,893 LIABILITIES AND STOCKHOLDERS' EQUITY Deposits 50,755 53,893 Interest Bearing 367,027 377,719 Total Deposits 429,782 431,612 Short Term Borrowing 0 0 Long Term Borrowing 10 0 Accrued Interest Payable 102 146 Other Liabilities 1,882 1,827 TOTAL LIABILITIES | STATEMENT OF CONDITION (Graduled) | | | | |
|--|--|-------------------|-------------|-------------|-----|
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| Interest Bearing Balances with Banks | | | | | |
| Investment Securities | | \$ | • | • | |
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| Total Deposits 429,782 431,612 Short Term Borrowing 0 0 Long Term Borrowing 0 0 Accrued Interest Payable 102 146 Other Liabilities 1,882 1,827 TOTAL LIABILITIES 431,766 433,585 Stockholders' Equity Preferred Stock-2,000,000 Shares Authorized; | <u> </u> | Ψ | , , | • | |
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| TOTAL LIABILITIES 431,766 433,585 Stockholders' Equity Preferred Stock-2,000,000 Shares Authorized; None Outstanding None Outstanding Common Stock-Par Value \$.10; 5,000,000 Authorized 150 150 Surplus 3,832 3,832 Treasury Stock; 173,542 - 2015, 172,142 - 2014 (2,231) (2,096) Unrealized Gains (Loss) Available for Sale Securities 74 164 Comprehensive Income Adjustment (2,091) (1,914) Minority Interest (96) (36) Retained Earnings 46,573 41,208 TOTAL STOCKHOLDERS' EQUITY 46,211 41,308 | Accrued Interest Payable | | 102 | 146 | |
| TOTAL LIABILITIES 431,766 433,585 Stockholders' Equity Preferred Stock-2,000,000 Shares Authorized; | • | | 1,882 | 1,827 | |
| Preferred Stock-2,000,000 Shares Authorized; None Outstanding Common Stock-Par Value \$.10; 5,000,000 Authorized 1,502,500 Issued 150 Surplus 3,832 Treasury Stock; 173,542 - 2015, 172,142 - 2014 (2,231) Unrealized Gains (Loss) Available for Sale Securities 74 164 Comprehensive Income Adjustment (2,091) (1,914) Minority Interest (96) (36) Retained Earnings 46,573 41,208 TOTAL STOCKHOLDERS' EQUITY 46,211 41,308 | TOTAL LIABILITIES | _ | | | |
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| Common Stock-Par Value \$.10; 5,000,000 Authorized 1,502,500 Issued 150 150 Surplus 3,832 3,832 3,832 Treasury Stock; 173,542 - 2015, 172,142 - 2014 (2,231) (2,096) Unrealized Gains (Loss) Available for Sale Securities 74 164 Comprehensive Income Adjustment (2,091) (1,914) Minority Interest (96) (36) Retained Earnings 46,573 41,208 TOTAL STOCKHOLDERS' EQUITY 46,211 41,308 | Preferred Stock-2,000,000 Shares Authorized; | | | | |
| 1,502,500 Issued 150 150 Surplus 3,832 3,832 Treasury Stock; 173,542 - 2015, 172,142 - 2014 (2,231) (2,096) Unrealized Gains (Loss) Available for Sale Securities 74 164 Comprehensive Income Adjustment (2,091) (1,914) Minority Interest (96) (36) Retained Earnings 46,573 41,208 TOTAL STOCKHOLDERS' EQUITY 46,211 41,308 | None Outstanding | | | | |
| Surplus 3,832 3,832 Treasury Stock; 173,542 - 2015, 172,142 - 2014 (2,231) (2,096) Unrealized Gains (Loss) Available for Sale Securities 74 164 Comprehensive Income Adjustment (2,091) (1,914) Minority Interest (96) (36) Retained Earnings 46,573 41,208 TOTAL STOCKHOLDERS' EQUITY 46,211 41,308 | Common Stock-Par Value \$.10; 5,000,000 Authorized | | | | |
| Treasury Stock; 173,542 - 2015, 172,142 - 2014 (2,231) (2,096) Unrealized Gains (Loss) Available for Sale Securities 74 164 Comprehensive Income Adjustment (2,091) (1,914) Minority Interest (96) (36) Retained Earnings 46,573 41,208 TOTAL STOCKHOLDERS' EQUITY 46,211 41,308 | 1,502,500 Issued | | 150 | 150 | |
| Unrealized Gains (Loss) Available for Sale Securities 74 164 Comprehensive Income Adjustment (2,091) (1,914) Minority Interest (96) (36) Retained Earnings 46,573 41,208 TOTAL STOCKHOLDERS' EQUITY 46,211 41,308 | Surplus | | 3,832 | 3,832 | |
| Comprehensive Income Adjustment (2,091) (1,914) Minority Interest (96) (36) Retained Earnings 46,573 41,208 TOTAL STOCKHOLDERS' EQUITY 46,211 41,308 | Treasury Stock; 173,542 - 2015, 172,142 - 2014 | | (2,231) | (2,096) | |
| Minority Interest (96) (36) Retained Earnings 46,573 41,208 TOTAL STOCKHOLDERS' EQUITY 46,211 41,308 | Unrealized Gains (Loss) Available for Sale Securities | | | | |
| Retained Earnings 46,573 41,208 TOTAL STOCKHOLDERS' EQUITY 46,211 41,308 | Comprehensive Income Adjustment | | (2,091) | (1,914) | |
| TOTAL STOCKHOLDERS' EQUITY 46,211 41,308 | Minority Interest | | (96) | (36) | |
| | Retained Earnings | | 46,573 | 41,208 | |
| TOTAL LIABILITIES AND STOCHOLDERS' EQUITY \$ 477,977 \$ 474,893 | | | 46,211 | 41,308 | |
| | TOTAL LIABILITIES AND STOCHOLDERS' EQUITY | \$_ | 477,977 \$ | 474,893 | |

NORTHUMBERLAND BANCORP

245 Front Street, Northumberland, PA For the Quarter Ending

June 30, 2015 and 2014

Amounts in thousands, except per share data

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| CITALINE IN INCOME (Chadalica) | Quarter Ended | | | Ended <u>2014</u> | Six Months Ended 2015 2014 | | |
|--|---------------|-----------|-----|----------------------|-------------------------------|-----------|-----------|
| INTEREST INCOME | | | | | | | · <u></u> |
| Interest and Fees on Loans | | | | | | | |
| Taxable | \$ | 3,014 | \$ | 2,984 | \$ | 6,007 \$ | 5,923 |
| Tax Exempt | | 55 | | 44 | | 107 | 90 |
| Interest on Investment Securities | | | | | | | |
| Taxable | | 256 | | 372 | | 528 | 725 |
| Tax Exempt | | 372 | | 362 | | 720 | 730 |
| Dividends | | 39 | | 36 | | 150 | 56 |
| Interest on Interest Bearing Balances with Banks | _ | 6 | _ | 6 | _ | 10 | 7.522 |
| TOTAL INTEREST INCOME | | 3,742 | | 3,804 | | 7,522 | 7,532 |
| INTEREST EXPENSE | | | | | | | |
| Deposits | | 647 | | 733 | | 1,295 | 1,485 |
| Other | _ | 2 | _ | 1 | _ | 3 | 1_ |
| TOTAL INTEREST EXPENSE | | 649 | _ | 734 | _ | 1,298 | 1,486 |
| NET INTEREST INCOME | | 3,094 | | 3,070 | | 6,224 | 6,046 |
| Loan Loss Provision | _ | 210 | _ | 33 | _ | 310 | 38 |
| NET INTEREST INCOME AFTER LOAN LOSS PROVISION | | 2,884 | | 3,037 | | 5,914 | 6,008 |
| OTHER INCOME | | | | | | | |
| Gain (Loss) on Sale of Securities | | 20 | | 63 | | 97 | 86 |
| Service Charges on Deposit Accounts | | 83 | | 80 | | 157 | 151 |
| Gain (Loss) on Loans Held for Sale | | 226 | | 209 | | 388 | 372 |
| Other Noninterest Income | | 682 | | 413 | | 1,028 | 715 |
| Trust Department Income | _ | 109 | _ | 102 | _ | 320 | 280 |
| TOTAL OTHER INCOME | | 1,120 | | 867 | | 1,990 | 1,604 |
| OTHER EXPENSES | | | | | | | |
| Salaries and Benefits | | 1,645 | | 1,444 | | 3,172 | 2,950 |
| Occupancy Expenses | | 388 | | 362 | | 772 | 731 |
| Other | | 1,119 | | 891 | | 2,095 | 1,694 |
| TOTAL OTHER EXPENSES | _ | 3,152 | _ | 2,697 | _ | 6,039 | 5,375 |
| INCOME BEFORE INCOME TAXES | | 853 | | 1,207 | | 1,865 | 2,237 |
| Income Taxes | | 126 | | 270 | | 320 | 464 |
| NET INCOME | \$ | 727 | \$_ | 937 | \$ | 1,545 \$ | 1,773 |
| Earnings per share | \$ | 0.55 | \$_ | 0.70 | \$ | 1.16_\$_ | 1.33 |
| Weighted Average Shares Outstanding | | 1,329,185 | | 1,330,804 | | 1,329,312 | 1,331,346 |