

Northumberland Bancorp

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December 8, 2016

Dear Shareholder:

The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, grew during the quarter ended September 30, 2016, and reached \$498,408,000 compared to \$480,457,000 on September 30, 2015. Over the past year your bank has produced healthy growth in loans. Net loans, including loans held for sale, were \$299,191,000 at September 30, 2016, compared to \$282,387,000 at September 30, 2015, or an increase of 5.95%. The largest portion of this increase continues to be growth in commercial loans. The bank remains well funded with deposits increasing to \$447,939,000 at September 30, 2016 from \$431,106,000 in 2015.

Your company reported earnings for the quarter ended September 30, 2016 of \$765,000. This was a slight increase from the \$741,000 reported in the third quarter of 2015. Net interest margin during the third quarter improved from 3.02% in 2015 to 3.11% in 2016. This improvement, together with the loan growth, resulted in an increase in net interest income of \$238,000 or 7.55% during the quarter. While the low interest rate environment continues to provide challenges, the bank was able to continue to enhance our margin. The bank is asset sensitive in the near term and is balanced overall. Since rate increases appear to be slow and small, the bank is well positioned to handle potential interest rate increases that may occur over the next year.

The loan portfolio continues to be high quality with low risk. The percentage of the bank's past due loans and loans on non-accrual status was 1.33% on September 30, 2016. A provision for loan losses was recorded during the quarter to give effect to the impact of the loan growth. The allowance for loan losses was .91% of loans outstanding, compared to .93% at December 31, 2015.

Your bank remains strongly capitalized. The bank's capital remains strong with a tier one leverage capital ratio of 10.23%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 18.52%, and total risk based capital to risk-weighted assets at 19.54%.

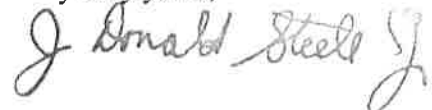
Non-interest income was \$966,000 for the quarter ended September 30, 2016, compared to \$926,000 for the quarter ended September 30, 2015. The increase was due to secondary mortgage activity that resulted in a higher level of gain on sale of loans.

Non-interest expense increased to \$3,395,000 for the third quarter of 2016 compared to \$3,203,000 for the same period in 2015. Various factors contributed to the increase, including professional fees related to compliance with the May 5, 2016 Consent Order issued by the Office of the Comptroller of the Currency.

Substantial progress has been made to satisfy the requirements of the Consent Order. While there is more work to be done, I am pleased with our progress to date.

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, 2016 and 2015
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Due From Banks	\$ 6,573	\$ 5,313
Interest Bearing Balances with Banks	11,632	5,759
Investment Securities	154,091	160,233
Loans Held for Sale	1,696	1,858
Loans, Net	300,233	283,109
Allowance for Loan Losses	(2,738)	(2,580)
Net Loans	<u>297,495</u>	<u>280,529</u>
Bank Premise and Equipment, Net	9,828	9,900
Accrued Interest Receivable	1,421	1,634
Other Assets	15,672	15,231
TOTAL ASSETS	<u>\$ 498,408</u>	<u>\$ 480,457</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:

Non-interest Bearing	\$ 71,133	\$ 64,198
Interest Bearing	376,806	366,908
Total Deposits	<u>447,939</u>	<u>431,106</u>
Short Term Borrowing	0	0
Long Term Borrowing	0	0

Accrued Interest Payable	91	99
Other Liabilities	1,327	2,240
TOTAL LIABILITIES	<u>449,357</u>	<u>433,445</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; 174,142 - 2016, 174,142 - 2015	(2,248)	(2,248)
Unrealized Gains (Loss) Available for Sale Securities	779	424
Comprehensive Income Adjustment	(1,565)	(2,091)
Minority Interest	(60)	(90)
Retained Earnings	48,163	47,035
TOTAL STOCKHOLDERS' EQUITY	<u>49,051</u>	<u>47,012</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 498,408</u>	<u>\$ 480,457</u>

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
September 30, 2016 and 2015
Amounts in thousands, except per share data

STATEMENT OF INCOME (Unaudited)

	Quarter Ended		Nine Months Ended	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
INTEREST INCOME				
Interest and Fees on Loans				
Taxable	\$ 3,252	\$ 3,050	\$ 9,605	\$ 9,057
Tax Exempt	67	56	193	163
Interest on Investment Securities				
Taxable	326	250	891	777
Tax Exempt	297	387	969	1,107
Dividends	40	37	123	187
Interest on Interest Bearing Balances with Banks	11	4	35	14
TOTAL INTEREST INCOME	<u>3,993</u>	<u>3,784</u>	<u>11,816</u>	<u>11,305</u>
INTEREST EXPENSE				
Deposits	600	629	1,792	1,923
Other	2	2	5	5
TOTAL INTEREST EXPENSE	<u>602</u>	<u>631</u>	<u>1,797</u>	<u>1,928</u>
NET INTEREST INCOME	<u>3,391</u>	<u>3,153</u>	<u>10,019</u>	<u>9,377</u>
Loan Loss Provision	26	6	153	316
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>3,365</u>	<u>3,147</u>	<u>9,866</u>	<u>9,061</u>
OTHER INCOME				
Gain (Loss) on Sale of Securities	13	31	139	128
Service Charges on Deposit Accounts	95	106	279	263
Gain (Loss) on Loans Held for Sale	232	171	499	559
Other Service Charges	455	427	1,222	1,455
Trust Department Income	171	191	439	510
TOTAL OTHER INCOME	<u>966</u>	<u>926</u>	<u>2,578</u>	<u>2,915</u>
OTHER EXPENSES				
Salaries and Benefits	1,667	1,609	5,009	4,780
Occupancy Expenses	400	400	1,232	1,172
Other	1,328	1,194	3,838	3,289
TOTAL OTHER EXPENSES	<u>3,395</u>	<u>3,203</u>	<u>10,079</u>	<u>9,241</u>
INCOME BEFORE INCOME TAXES	936	870	2,365	2,735
Income Taxes	171	129	353	449
NET INCOME	<u>\$ 765</u>	<u>\$ 741</u>	<u>\$ 2,012</u>	<u>\$ 2,286</u>
Earnings per share	<u>\$ 0.58</u>	<u>\$ 0.56</u>	<u>\$ 1.51</u>	<u>\$ 1.72</u>
Weighted Average Shares Outstanding	1,328,358	1,328,521	1,328,358	1,329,045