

Northumberland Bancorp

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August 18, 2016

Dear Shareholder:

The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, grew during the quarter ended June 30, 2016, and reached \$487,310,000 compared to \$477,977,000 on June 30, 2015. Over the past year your bank has produced healthy growth in loans, and in particular commercial loans. Net loans, including loans held for sale, were \$298,974,000 at June 30, 2016, compared to \$279,298,000 at June 30, 2015, or an increase of 7.04%. The largest portion of this increase continues to be an increase in commercial loans. The bank remains well funded with deposits increasing to \$437,376,000 at March 31, 2016 from \$429,782,000 in 2015.

Your company reported earnings for the quarter ended June 30, 2016 of \$632,000. Net interest margin improved from 2.97% in 2015 to 3.12% in 2016. This improvement, together with the loan growth, resulted in an increase in net interest income of \$255,000 or 8.24% during the quarter. While the low interest rate environment continues to provide challenges, the bank was able to take some measures 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 exploring changes to enhance the yield on investment securities. Accordingly, I believe we are 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 bank's past due loans and loans on non-accrual status was .99% on June 30, 2016. No provision for loan losses was recorded during the quarter as the bank's assessment of the loss potential did not indicate that an increase was required. The allowance for loan losses was .93% of loans outstanding, compared to .93% at December 31, 2015.

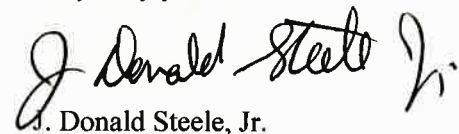
Your bank remains strongly capitalized. The bank's capital remains strong with a tier one leverage capital ratio of 10.14%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 18.66%, and total risk based capital to risk-weighted assets at 19.71%.

Non-interest income was \$846,000 for the quarter ended June 30, 2016, compared to \$1,121,000 for the quarter ended June 30, 2015. Non-interest income in 2015 included the receipt of a death benefit on a bank owned life insurance policy of \$277,000.

Non-interest expense increased \$310,000 from the second quarter of 2015. Various factors contributed to the increase, including increases in salaries and benefits, additional personnel, and professional fees related to the compliance with the consent order among others.

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, 2016 and 2015
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Due From Banks	\$ 6,083	\$ 4,154
Interest Bearing Balances with Banks	8,900	5,073
Investment Securities	149,106	165,698
Loans Held for Sale	1,276	391
Loans, net	297,698	278,907
Allowance for Loan Losses	<u>(2,755)</u>	<u>(2,813)</u>
Net Loans	294,943	276,094
Bank Premise and Equipment, Net	9,956	9,356
Accrued Interest Receivable	1,395	1,634
Other Assets	15,651	15,577
TOTAL ASSETS	<u>\$ 487,310</u>	<u>\$ 477,977</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:		
Non-interest Bearing	\$ 68,757	\$ 62,755
Interest Bearing	<u>368,619</u>	<u>367,027</u>
Total Deposits	437,376	429,782
Short Term Borrowing	0	0
Long Term Borrowing	0	0
Accrued Interest Payable	95	102
Other Liabilities	<u>1,008</u>	<u>1,882</u>
TOTAL LIABILITIES	438,479	431,766

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, 173,542 - 2015	(2,248)	(2,231)
Unrealized Gains (Loss) Available for Sale Securities	1,109	74
Comprehensive Income Adjustment	(1,565)	(2,091)
Minority Interest	(69)	(96)
Retained Earnings	<u>47,622</u>	<u>46,573</u>
TOTAL STOCKHOLDERS' EQUITY	48,831	46,211
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 487,310</u>	<u>\$ 477,977</u>

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

STATEMENT OF INCOME (Unaudited)

	Quarter Ended		Six Months Ended	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
INTEREST INCOME				
Interest and Fees on Loans				
Taxable	\$ 3,206	\$ 3,014	\$ 6,415	\$ 6,007
Tax Exempt	65	55	65	107
Interest on Investment Securities				
Taxable	292	256	565	528
Tax Exempt	323	372	672	720
Dividends	43	39	83	150
Interest on Interest Bearing Balances with Banks	12	6	24	10
TOTAL INTEREST INCOME	<u>3,941</u>	<u>3,742</u>	<u>7,824</u>	<u>7,522</u>
INTEREST EXPENSE				
Deposits	591	647	1,194	1,295
Other	2	2	3	3
TOTAL INTEREST EXPENSE	<u>593</u>	<u>649</u>	<u>1,197</u>	<u>1,298</u>
NET INTEREST INCOME	<u>3,348</u>	<u>3,093</u>	<u>6,627</u>	<u>6,224</u>
Loan Loss Provision	0	210	127	310
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>3,348</u>	<u>2,883</u>	<u>6,500</u>	<u>5,914</u>
OTHER INCOME				
Gain (Loss) on Sale of Securities	80	20	125	97
Service Charges on Deposit Accounts	95	83	184	157
Gain (Loss) on Loans Held for Sale	162	226	267	388
Other Noninterest Income	416	683	767	1,028
Trust Department Income	93	109	269	320
TOTAL OTHER INCOME	<u>846</u>	<u>1,121</u>	<u>1,612</u>	<u>1,990</u>
OTHER EXPENSES				
Salaries and Benefits	1,732	1,645	3,343	3,172
Occupancy Expenses	424	388	831	772
Other	1,306	1,119	2,510	2,095
TOTAL OTHER EXPENSES	<u>3,462</u>	<u>3,152</u>	<u>6,684</u>	<u>6,039</u>
INCOME BEFORE INCOME TAXES	732	852	1,428	1,865
Income Taxes	100	125	182	320
NET INCOME	<u>\$ 632</u>	<u>\$ 727</u>	<u>\$ 1,246</u>	<u>\$ 1,545</u>
Earnings per share	<u>\$ 0.48</u>	<u>\$ 0.55</u>	<u>\$ 0.94</u>	<u>\$ 1.16</u>
Weighted Average Shares Outstanding	1,328,358	1,329,185	1,328,358	1,329,312