

Northumberland Bancorp

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

May 31, 2016

Dear Shareholder:

The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, grew during the quarter ended March 31, 2016, and reached \$482,422,000 compared to \$478,918,000 on March 31, 2015. Net loans, including loans held for sale, were \$293,530,000 at March 31, 2016, compared to \$278,104,000 at March 31, 2015, or an increase of 5.55%. The largest portion of this increase continues to be an increase in commercial loans. Deposits increased slightly to \$432,531,000 at March 31, 2016 from \$429,936,000 in 2015.

Your company reported earnings for the quarter ended March 31, 2016 of \$614,000. Net interest margin improved from 3.02% in 2015 to 3.11% in 2016. 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 appears balanced overall. Accordingly, I believe that we are well positioned to handle potential interest rate increases that may occur over the next year.

The bank's past due loans and loans on non-accrual status was 1.69% on March 31, 2016. The allowance for loan losses was .93% of loans outstanding compared to .93% at December 31, 2015.

The bank's capital remains strong with a tier one leverage capital ratio of 10.10%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 18.64%, and total risk based capital to risk-weighted assets at 19.69%.

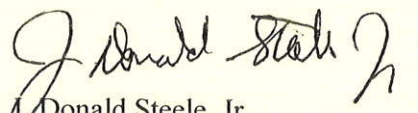
Non-interest income was \$766,000 for the quarter ended March 31, 2016, compared to \$869,000 for the quarter ended March 31, 2015. This decrease was the result of lower levels of trust department income, security gains and gains from the sale of mortgages.

Non-interest expense increased \$334,000 from the first quarter of 2015. Various factors contributed to the increase, including increases in salaries and benefits, and professional fees and ancillary expenses related to the bank's investigation of certain trust department activities. Additional costs related to the implementation of a managed computer environment also contributed to the increased expenses. The managed computer environment better addresses risks from cyber security threats and maintains a more stable computer environment.

During the quarter Mark Ritter joined the bank in the role of Senior Vice President-Wealth Management. He will be spearheading changes in the trust department to strengthen policies and procedures in the department and position the department and NNB Financial Services LLC for future growth.

We thank you, our shareholders, for your continued support.

Very truly yours,


Donald Steele, Jr.
Chairman & President

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
March 31, 2016 and 2015
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Due From Banks	\$ 7,115	\$ 6,776
Interest Bearing Balances with Banks	5,582	8,143
Investment Securities	149,029	161,661
Loans Held for Sale	821	344
Loans, net	295,465	280,393
Allowance for Loan Losses	(2,756)	(2,633)
Net Loans	<u>292,709</u>	<u>277,760</u>
Bank Premise and Equipment, Net	10,113	9,171
Accrued Interest Receivable	1,405	1,442
Other Assets	15,648	13,621
TOTAL ASSETS	<u>\$ 482,422</u>	<u>\$ 478,918</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest Bearing	\$ 67,572	\$ 64,344
Interest Bearing	364,959	365,592
Total Deposits	<u>432,531</u>	<u>429,936</u>
Long Term Borrowing	0	0
Accrued Interest Payable	98	113
Other Liabilities	1,728	2,609
TOTAL LIABILITIES	<u>434,357</u>	<u>432,658</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; 2016, 174,142; 2015, 173,242	(2,248)	(2,223)
Unrealized Gains (Loss) Available for Sale Securities	838	580
Comprehensive Income Adjustment	(1,565)	(2,091)
Minority Interest	(71)	(87)
Retained Earnings	47,129	46,099
TOTAL STOCKHOLDERS' EQUITY	<u>48,065</u>	<u>46,260</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 482,422</u>	<u>\$ 478,918</u>

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA

For the Quarter Ending
March 31, 2016 and 2015

Amounts in thousands, except for per share data

STATEMENT OF INCOME (Unaudited)

	Quarter Ended	
	<u>2016</u>	<u>2015</u>
INTEREST INCOME		
Interest and Fees on Loans		
Taxable	\$ 3,147	\$ 2,993
Tax Exempt	61	52
Interest on Investment Securities		
Taxable	273	273
Tax Exempt	349	347
Dividends	41	110
Interest on Interest Bearing Balances with Banks	12	5
TOTAL INTEREST INCOME	<u>3,883</u>	<u>3,780</u>
INTEREST EXPENSE		
Deposits	603	648
Other	2	2
TOTAL INTEREST EXPENSE	<u>605</u>	<u>650</u>
NET INTEREST INCOME	<u>3,278</u>	<u>3,130</u>
Loan Loss Provision	127	100
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>3,151</u>	<u>3,030</u>
OTHER INCOME		
Gain (Loss) on Sale of Securities	46	77
Service Charges on Deposit Accounts	89	74
Gain (Loss) on Loans Held for Sale	105	162
Other	351	346
Trust Department Income	175	210
TOTAL OTHER INCOME	<u>766</u>	<u>869</u>
OTHER EXPENSES		
Salaries and Benefits	1,610	1,526
Occupancy Expenses	407	385
Other	1,204	976
TOTAL OTHER EXPENSES	<u>3,221</u>	<u>2,887</u>
INCOME BEFORE INCOME TAXES	696	1,012
Income Taxes	82	194
NET INCOME	<u>\$ 614</u>	<u>\$ 818</u>
Earnings per share	\$ 0.46	\$ 0.61