

# Northumberland Bancorp

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May 30, 2017

Dear Shareholder:

You Company continued to grow during the first quarter of 2017. The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, grew during the quarter ended March 31, 2017, and reached \$496,059,000 compared to \$482,510,000 on March 31, 2016. Net loans, including loans held for sale, were \$300,294,000 at March 31, 2017, compared to \$293,530,000 at March 31, 2016, or an increase of 2.30%. The largest portion of this increase continues to be an increase in commercial loans. Deposits increased to \$445,664,000 at March 31, 2017 from \$432,531,000 in 2016, an increase of 3.04%.

Your company reported earnings for the quarter ended March 31, 2017 of \$634,000 an increase of 3.26% from the prior year. Net interest margin declined from 3.11% in 2016 to 3.07% in 2017. The holdings of tax-exempt securities declined, which impacted the tax equivalent yield of the investment portfolio. The bank is asset sensitive in the near term and appears balanced overall. Accordingly, I believe that we are well positioned to handle continued interest rate increases that may occur over the next year.

The Bank's loan portfolio is of high quality as measured by past due loans and loans on non-accrual status which was 1.39% on March 31, 2017. The allowance for loan losses was .92% of loans outstanding compared to .93% at December 31, 2016.

Your Bank remains well capitalized with a tier one leverage capital ratio of 10.35%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 19.04%, and total risk based capital to risk-weighted assets at 20.08%.

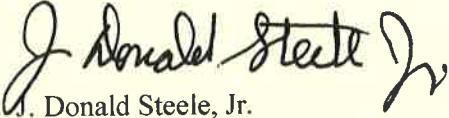
Non-interest income was \$835,000 for the quarter ended March 31, 2017, compared to \$766,000 for the quarter ended March 31, 2016. A significant part of the increase was due to higher gains on mortgage sales during the quarter.

Non-interest expense increased to \$3,391,000 or 5.28% from the first quarter of 2016. The increase is centered in the area of salaries and benefits as the bank has expanded. The staff has been upgraded to better address the regulatory environment and a management team has been built to position the Bank for success in the future.

I am happy to report that we have added two new directors, Chad Geise and Adam Purdy, to the board. These gentlemen together with the introduction of a CFO and VP-Retail Lending later this year will help position the bank for the future.

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**  
**March 31, 2017 and 2016**  
**Amounts in thousands**

STATEMENT OF CONDITION (Unaudited)

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 7,775	\$ 7,115
Interest Bearing Balances with Banks	6,240	5,582
Investment Securities	153,999	149,029
Loans Held for Sale	752	821
Loans, net	302,311	295,465
Allowance for Loan Losses	(2,769)	(2,756)
Net Loans	<u>299,542</u>	<u>292,709</u>
Bank Premise and Equipment, Net	9,662	10,113
Accrued Interest Receivable	1,386	1,405
Other Assets	16,703	15,736
<b>TOTAL ASSETS</b>	<u>\$ 496,059</u>	<u>\$ 482,510</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Deposits:

Non-interest Bearing	\$ 77,048	\$ 67,572
Interest Bearing	368,616	364,959
Total Deposits	<u>445,664</u>	<u>432,531</u>
Long Term Borrowing	0	0
Accrued Interest Payable	98	98
Other Liabilities	1,777	1,728
<b>TOTAL LIABILITIES</b>	<u>447,539</u>	<u>434,357</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; 2017, 174,142; 2016, 174,142	(2,248)	(2,248)
Unrealized Gains (Loss) Available for Sale Securities	(675)	838
Comprehensive Income Adjustment	(1,662)	(1,565)
Minority Interest	(57)	(71)
Retained Earnings	<u>49,180</u>	<u>47,217</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>48,520</u>	<u>48,153</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 496,059</u>	<u>\$ 482,510</u>

**NORTHUMBERLAND BANCORP**  
**245 Front Street, Northumberland, PA**  
**For the Quarter Ending**  
**March 31, 2017 and 2016**  
**Amounts in thousands, except for per share data**

STATEMENT OF INCOME (Unaudited)

	Quarter Ended	
	<u>2017</u>	<u>2016</u>
<b>INTEREST INCOME</b>		
Interest and Fees on Loans		
Taxable	\$ 3,179	\$ 3,147
Tax Exempt	67	61
Interest on Investment Securities		
Taxable	372	273
Tax Exempt	261	349
Dividends	42	41
Interest on Interest Bearing Balances with Banks	17	12
<b>TOTAL INTEREST INCOME</b>	<u>3,938</u>	<u>3,883</u>
<b>INTEREST EXPENSE</b>		
Deposits	612	603
Other	2	2
<b>TOTAL INTEREST EXPENSE</b>	<u>614</u>	<u>605</u>
<b>NET INTEREST INCOME</b>	<u>3,324</u>	<u>3,278</u>
Loan Loss Provision	0	127
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISION</b>	<u>3,324</u>	<u>3,151</u>
<b>OTHER INCOME</b>		
Gain (Loss) on Sale of Securities	(13)	46
Service Charges on Deposit Accounts	94	89
Gain (Loss) on Loans Held for Sale	161	105
Other	437	351
Trust Department Income	156	175
<b>TOTAL OTHER INCOME</b>	<u>835</u>	<u>766</u>
<b>OTHER EXPENSES</b>		
Salaries and Benefits	1,856	1,610
Occupancy Expenses	418	407
Other	1,117	1,204
<b>TOTAL OTHER EXPENSES</b>	<u>3,391</u>	<u>3,221</u>
<b>INCOME BEFORE INCOME TAXES</b>	768	696
Income Taxes	134	82
<b>NET INCOME</b>	<u>\$ 634</u>	<u>\$ 614</u>
Earnings per share	\$ 0.48	\$ 0.46
Weighted Average Shares Outstanding	1,328,358	1,328,358