

Northumberland Bancorp

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August 4, 2017

Dear Shareholder:

Your Company continued to grow during the second quarter of 2017. The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, grew during the quarter ended June 30, 2017, and reached \$504,913,000 compared to \$487,310,000 on June 30, 2016. Net loans, including loans held for sale, grew 6.00% over the past year to \$314,012,000 at June 30, 2017, compared to \$296,219,000 at June 30, 2016. Driving this growth was increases in commercial loans. Deposits grew 3.76% over the past twelve months to \$453,826,000 at June 30, 2017 from \$437,376,000 at June 30, 2016.

Your company reported earnings for the quarter ended June 30, 2017 of \$461,000, a decrease of 27% from the prior year. A major factor contributing to the decline was a provision for loan losses of \$177,000 in the second quarter of 2017, compared to no provision in the second quarter of 2016. The provision for loan losses in the second quarter of 2017 was a result of the increase in loans outstanding, as well as an increase in classified loans. The Bank's loan portfolio is of high quality as measured by past due loans and loans on non-accrual status, which was 1.21% on June 30, 2017. This reflects an improvement from the first quarter of 2017, as well as the second quarter of 2016. The allowance for loan losses was .91% of loans outstanding, compared to .93% at December 31, 2016.

Another positive trend is that the net interest margin increased from 3.12% in 2016 to 3.13% in 2017. The increase reflects the impact of three rate increases by the Federal Reserve Bank since the second quarter of 2016. The increase by the Federal Reserve Bank late in the second quarter of 2017 will impact the net interest margin in future quarters.

Your Bank remains well capitalized with a tier one leverage capital ratio of 10.30%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 18.24%, and total risk based capital to risk-weighted assets at 19.29%.

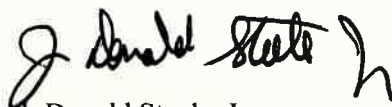
Non-interest income was \$798,000 for the quarter ended June 30, 2017, compared to \$846,000 for the quarter ended June 30, 2017. A main factor causing the decrease was a lower level of security gains.

Non-interest expense increased to \$3,646,000 or 5.31% from the second quarter of 2016. The major cause of the increase was additional expenses related to remediation of issues in the trust department. The primary nature of the expenses this quarter was isolated and will not be a recurring item.

We continue to look forward to the arrival of a new CFO during the third quarter. Hiring this individual is the final step of an effort over the past year to enhance our senior management expertise and depth at your bank. I am happy to report that Brenda Fiorenza, a loan officer in the main office, has been promoted to Vice President and Senior Retail Lender. In addition, Tom Crouse, a loan officer in the Sunbury office, was promoted to Assistant Vice President and Loan Operations Supervisor. This team will enhance our retail lending area by focusing on enhancing our current service offerings.

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, 2017 and 2016
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and Due From Banks	\$ 5,892	\$ 6,083
Interest Bearing Balances with Banks	7,617	8,900
Investment Securities	149,904	149,106
Loans Held for Sale	1,195	1,276
Loans, net	315,736	297,698
Allowance for Loan Losses	(2,919)	(2,755)
Net Loans	<u>312,817</u>	<u>294,943</u>
Bank Premise and Equipment, Net	9,509	9,956
Accrued Interest Receivable	1,395	1,395
Other Assets	16,584	15,651
TOTAL ASSETS	<u>\$ 504,913</u>	<u>\$ 487,310</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:		
Non-interest Bearing	\$ 81,087	\$ 68,757
Interest Bearing	<u>372,739</u>	<u>368,619</u>
Total Deposits	453,826	437,376
Short Term Borrowing	0	0
Long Term Borrowing	0	0
Accrued Interest Payable	97	95
Other Liabilities	<u>1,877</u>	<u>1,008</u>
TOTAL LIABILITIES	455,800	438,479

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 - 2017, 174,142 - 2016	(2,248)	(2,248)
Unrealized Gains (Loss) Available for Sale Securities	(297)	1,109
Comprehensive Income Adjustment	(1,662)	(1,565)
Minority Interest	(56)	(69)
Retained Earnings	<u>49,394</u>	<u>47,622</u>
TOTAL STOCKHOLDERS' EQUITY	<u>49,113</u>	<u>48,831</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 504,913</u>	<u>\$ 487,310</u>

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
June 30, 2017 and 2016
Amounts in thousands, except per share data

STATEMENT OF INCOME (Unaudited)

	Quarter Ended		Six Months Ended	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
INTEREST INCOME				
Interest and Fees on Loans				
Taxable	\$ 3,348	\$ 3,206	\$ 6,526	\$ 6,415
Tax Exempt	67	65	135	65
Interest on Investment Securities				
Taxable	454	292	826	565
Tax Exempt	252	323	512	672
Dividends	45	43	88	83
Interest on Interest Bearing Balances with Banks	26	12	43	24
TOTAL INTEREST INCOME	<u>4,192</u>	<u>3,941</u>	<u>8,130</u>	<u>7,824</u>
INTEREST EXPENSE				
Deposits	674	591	1,287	1,194
Other	2	2	3	3
TOTAL INTEREST EXPENSE	<u>676</u>	<u>593</u>	<u>1,290</u>	<u>1,197</u>
NET INTEREST INCOME	<u>3,516</u>	<u>3,348</u>	<u>6,840</u>	<u>6,627</u>
Loan Loss Provision	177	0	177	127
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>3,339</u>	<u>3,348</u>	<u>6,663</u>	<u>6,500</u>
OTHER INCOME				
Gain (Loss) on Sale of Securities	2	80	(12)	125
Service Charges on Deposit Accounts	107	95	201	184
Gain (Loss) on Loans Held for Sale	157	162	319	267
Other Noninterest Income	429	416	866	767
Trust Department Income	103	93	259	269
TOTAL OTHER INCOME	<u>798</u>	<u>846</u>	<u>1,633</u>	<u>1,612</u>
OTHER EXPENSES				
Salaries and Benefits	1,788	1,732	3,644	3,343
Occupancy Expenses	427	424	845	831
Other	1,431	1,306	2,548	2,510
TOTAL OTHER EXPENSES	<u>3,646</u>	<u>3,462</u>	<u>7,037</u>	<u>6,684</u>
INCOME BEFORE INCOME TAXES	491	732	1,259	1,428
Income Taxes	30	100	164	182
NET INCOME	<u>\$ 461</u>	<u>\$ 632</u>	<u>\$ 1,095</u>	<u>\$ 1,246</u>
Earnings per share	<u>\$ 0.35</u>	<u>\$ 0.48</u>	<u>\$ 0.82</u>	<u>\$ 0.94</u>
Weighted Average Shares Outstanding	1,328,358	1,328,358	1,328,358	1,328,358