

# Northumberland Bancorp

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

August 28, 2015

Dear Shareholder:

Your company's assets grew for the twelve month period ended June 30, 2015, reaching \$477,977,000, which was an increase of .65% from June 30, 2014. Net loans, including loans held for sale, were \$276,485,000 at June 30, 2015, compared to \$253,143,000 at June 30, 2014 or an increase of 9.22%. Deposits decreased slightly to \$429,782,000 at June 30, 2015 from \$431,612,000 in 2014.

Northumberland Bancorp, parent company of The Northumberland National Bank, reported earnings for the quarter ended June 30, 2015 of \$727,000. Net interest margin improved from 2.89% in 2014 to 2.97% in 2015. While the low interest rate environment continues to provide challenges, the bank was able to take some measures to enhance our margin. Average loans in the quarter increased to \$280,586,000 from \$265,975,000 in the second quarter of 2014. The percentage of loans to assets increased to 57.87% in 2015 from 54.67% in June of 2014.

The bank's past due loans and loans on non-accrual status of 1.38% continued to be below the national peer group. The provision for loan loss in the quarter increased to \$210,000 for the quarter ended June 30, 2015 compared to \$33,000 in the second quarter of 2014. The increase was due to the impairment loss taken on a loan to one customer which is experiencing financial difficulties.

Your bank's capital remains strong with a tier one leverage capital ratio of 9.99%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 19.28%, and total risk based capital to risk-weighted assets at 20.40%.

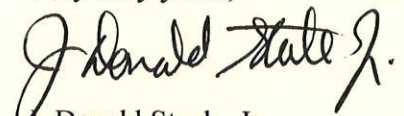
Non-interest income was \$1,120,000 for the quarter ended June 30, 2015, compared to \$867,000 for the quarter ended June 30, 2014. This increase was primarily the result of the bank's receipt of proceeds from a bank owned life insurance policy.

Non-interest expense increased \$455,000 from the second quarter of 2014. Various factors contributed to the increase, including increases in salaries and benefits, and professional fees related to the bank's investigation of certain trust department activities. Additional costs related to the implementation of a managed computer environment, to better address risks from cyber security threats, and maintain a more stable computer environment, also contributed to the increased expenses.

We are looking forward to the opening of our new Selinsgrove Office planned for October 2015.

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, 2015 and 2014**  
**Amounts in thousands**

STATEMENT OF CONDITION (Unaudited)

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 4,154	\$ 4,602
Interest Bearing Balances with Banks	5,073	9,782
Investment Securities	165,698	184,445
Loans Held for Sale	391	1,160
Loans, net	278,907	254,427
Allowance for Loan Losses	<u>(2,813)</u>	<u>(2,444)</u>
Net Loans	276,094	251,983
Bank Premise and Equipment, Net	9,356	8,361
Accrued Interest Receivable	1,634	1,634
Other Assets	<u>15,577</u>	<u>12,926</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>477,977</u></b>	<b>\$ <u>474,893</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Non-interest Bearing	\$ 62,755	\$ 53,893
Interest Bearing	<u>367,027</u>	<u>377,719</u>
Total Deposits	429,782	431,612
Short Term Borrowing	0	0
Long Term Borrowing	0	0
Accrued Interest Payable	102	146
Other Liabilities	<u>1,882</u>	<u>1,827</u>
<b>TOTAL LIABILITIES</b>	<b>431,766</b>	<b>433,585</b>
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; 173,542 - 2015, 172,142 - 2014	(2,231)	(2,096)
Unrealized Gains (Loss) Available for Sale Securities	74	164
Comprehensive Income Adjustment	(2,091)	(1,914)
Minority Interest	(96)	(36)
Retained Earnings	<u>46,573</u>	<u>41,208</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>46,211</b>	<b>41,308</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ <u>477,977</u></b>	<b>\$ <u>474,893</u></b>

**NORTHUMBERLAND BANCORP**  
**245 Front Street, Northumberland, PA**  
**For the Quarter Ending**  
**June 30, 2015 and 2014**  
**Amounts in thousands, except per share data**

STATEMENT OF INCOME (Unaudited)

	Quarter Ended		Six Months Ended	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>INTEREST INCOME</b>				
Interest and Fees on Loans				
Taxable	\$ 3,014	\$ 2,984	\$ 6,007	\$ 5,923
Tax Exempt	55	44	107	90
Interest on Investment Securities				
Taxable	256	372	528	725
Tax Exempt	372	362	720	730
Dividends	39	36	150	56
Interest on Interest Bearing Balances with Banks	6	6	10	8
<b>TOTAL INTEREST INCOME</b>	<u>3,742</u>	<u>3,804</u>	<u>7,522</u>	<u>7,532</u>
<b>INTEREST EXPENSE</b>				
Deposits	647	733	1,295	1,485
Other	2	1	3	1
<b>TOTAL INTEREST EXPENSE</b>	<u>649</u>	<u>734</u>	<u>1,298</u>	<u>1,486</u>
<b>NET INTEREST INCOME</b>	<u>3,094</u>	<u>3,070</u>	<u>6,224</u>	<u>6,046</u>
Loan Loss Provision	210	33	310	38
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISION</b>	<u>2,884</u>	<u>3,037</u>	<u>5,914</u>	<u>6,008</u>
<b>OTHER INCOME</b>				
Gain (Loss) on Sale of Securities	20	63	97	86
Service Charges on Deposit Accounts	83	80	157	151
Gain (Loss) on Loans Held for Sale	226	209	388	372
Other Noninterest Income	682	413	1,028	715
Trust Department Income	109	102	320	280
<b>TOTAL OTHER INCOME</b>	<u>1,120</u>	<u>867</u>	<u>1,990</u>	<u>1,604</u>
<b>OTHER EXPENSES</b>				
Salaries and Benefits	1,645	1,444	3,172	2,950
Occupancy Expenses	388	362	772	731
Other	1,119	891	2,095	1,694
<b>TOTAL OTHER EXPENSES</b>	<u>3,152</u>	<u>2,697</u>	<u>6,039</u>	<u>5,375</u>
<b>INCOME BEFORE INCOME TAXES</b>	853	1,207	1,865	2,237
Income Taxes	126	270	320	464
<b>NET INCOME</b>	<u>\$ 727</u>	<u>\$ 937</u>	<u>\$ 1,545</u>	<u>\$ 1,773</u>
Earnings per share	<u>\$ 0.55</u>	<u>\$ 0.70</u>	<u>\$ 1.16</u>	<u>\$ 1.33</u>
Weighted Average Shares Outstanding	1,329,185	1,330,804	1,329,312	1,331,346