

Northumberland Bancorp

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

June 4, 2015

Dear Shareholder:

Your company's assets decreased for the twelve month period ended March 31, 2015, by approximately \$4 million. We planned on a somewhat lower growth in order to allow our loan to deposit ratio to increase and to increase net interest margin. The loan to deposit ratio improved from 60.5% in 2014 to 64.7% in 2015. Net loans, including loans held for sale, were \$278,104,000 at March 31, 2015, compared to \$264,789,000 at March 31, 2014, or an increase of 5.00%.

Northumberland Bancorp, parent company of The Northumberland National Bank, reported earnings for the quarter ended March 31, 2015 of \$818,000. Return on average assets and equity of the bank for the quarter were .70% and 7.18% respectively.

Net interest margin improved from 2.89% in 2014 to 3.02% in 2015. While the low interest rate environment continues to provide challenges, the bank was able to take measures to enhance the margin. Average loans in the quarter increased to \$279,792,000 from \$265,957,000 in the first quarter of 2014. The percentage of loans to assets increased to 58.02% in 2015 from 55.14% in March of 2014.

The bank's past due loans and loans on non-accrual status of 1.60% continued to be well below national peers of 1.71%. During the quarter the provision for loan losses was increased from \$5,000 in 2014 to \$100,000 in 2015. This increase was the result of the increase in loans outstanding and charge offs related to distressed real estate that was foreclosed on and subsequently sold at a loss.

Your bank's capital remains strong with a tier one leverage capital ratio of 9.96%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 19.31%, and total risk based capital to risk-weighted assets at 20.38%.

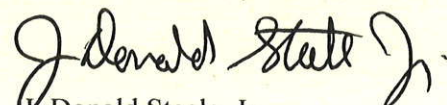
Non-interest income was \$869,000 for the quarter ended March 31, 2015, compared to \$737,000 for the quarter ended March 31, 2014. This increase was primarily attributed to an increase in gains on sale of securities, income from debit cards and increased trust department income.

Non-interest expense increased \$209,000 or 7.8% from the first quarter of 2014. The largest factor contributing to the increase was the increased cost of data processing services. The increase, which is partially offset by reductions in other areas, was made to greatly improve our data processing environment through managed information technology services. These services provide 24/7 monitoring for cyber security risks.

Our plans for opening a full service office in Selinsgrove to replace our office in the Weis Markets at Susquehanna Valley Mall were somewhat delayed. We now expect to open that facility in the fourth quarter of 2015. This location will better serve the residents of the Borough of Selinsgrove.

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, 2015 and 2014
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and Due From Banks	\$ 6,776	\$ 6,640
Interest Bearing Balances with Banks	8,143	12,697
Investment Securities	161,661	175,749
Loans Held for Sale	344	1,150
Loans, net	280,393	266,113
Allowance for Loan Losses	(2,633)	(2,474)
Net Loans	<u>277,760</u>	<u>263,639</u>
Bank Premise and Equipment, Net	9,171	8,346
Accrued Interest Receivable	1,442	1,509
Other Assets	13,621	13,257
TOTAL ASSETS	\$ <u>478,918</u>	\$ <u>482,987</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest Bearing	\$ 64,344	\$ 56,501
Interest Bearing	365,592	380,985
Total Deposits	<u>429,936</u>	<u>437,486</u>
Long Term Borrowing	0	0
Accrued Interest Payable	113	129
Other Liabilities	2,609	664
TOTAL LIABILITIES	<u>432,658</u>	<u>438,279</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; 173,242; 2015 - 170,617 - 2014	(2,223)	(2,139)
Unrealized Gains (Loss) Available for Sale Securities	580	58
Comprehensive Income Adjustment	(2,091)	(589)
Minority Interest	(87)	(58)
Retained Earnings	<u>46,099</u>	<u>43,454</u>
TOTAL STOCKHOLDERS' EQUITY	<u>46,260</u>	<u>44,708</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>478,918</u>	\$ <u>482,987</u>

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
March 31, 2015 and 2014
Amounts in thousands, except for per share data

STATEMENT OF INCOME (Unaudited)

	Quarter Ended	
	<u>2015</u>	<u>2014</u>
INTEREST INCOME		
Interest and Fees on Loans		
Taxable	\$ 2,993	\$ 2,939
Tax Exempt	52	46
Interest on Investment Securities		
Taxable	273	367
Tax Exempt	347	374
Dividends	110	2
Interest on Interest Bearing Balances with Banks	5	2
TOTAL INTEREST INCOME	<u>3,780</u>	<u>3,730</u>
INTEREST EXPENSE		
Deposits	648	753
Other	2	0
TOTAL INTEREST EXPENSE	<u>650</u>	<u>753</u>
NET INTEREST INCOME	<u>3,130</u>	<u>2,977</u>
Loan Loss Provision	100	5
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>3,030</u>	<u>2,972</u>
OTHER INCOME		
Gain (Loss) on Sale of Securities	77	23
Service Charges on Deposit Accounts	74	71
Gain (Loss) on Loans Held for Sale	162	164
Other	346	301
Trust Department Income	210	178
TOTAL OTHER INCOME	<u>869</u>	<u>737</u>
OTHER EXPENSES		
Salaries and Benefits	1,526	1,505
Occupancy Expenses	385	370
Other	976	803
TOTAL OTHER EXPENSES	<u>2,887</u>	<u>2,678</u>
INCOME BEFORE INCOME TAXES	1,012	1,031
Income Taxes	194	194
NET INCOME	<u>\$ 818</u>	<u>\$ 837</u>
Earnings per share	\$ 0.61	\$ 0.63