



The Northumberland National Bank

245 Front St. • P.O. Box 271 • Northumberland, PA 17857-0271

Phone (570) 473-3531 • Fax (570) 473-9697

November 18, 2014

Dear Shareholder:

The third quarter of 2014 continued to hold challenges for the company as the economy has continued in a very low interest rate environment. Total assets declined to \$479,145,000 from \$488,663,000 as the bank took measures to reduce the cost of interest bearing liabilities. Interest bearing liabilities decreased to \$373,410,000 from \$390,233,000 on September 30, 2013. Conversely non-interest bearing deposits increased \$4,099,000 to \$58,317,000.

Northumberland Bancorp, parent company of The Northumberland National Bank, reported earnings for the quarter ended September 30, 2014 of \$1,013,000 which was in line with earnings in the third quarter of 2013. Return on average assets and equity of the bank for the quarter were .83% and 8.67% respectively.

Net interest margin improved from 2.81% in 2013 to 2.91% in 2014. 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 \$265,172,000 from \$253,938,000 in the third quarter of 2013. The margin difference between the yield on loans for the quarter as compared to the yield on investments, resulted in an approximate 2.9% improvement in net margin as more of the bank's assets were allocated to loans. In addition, the average cost to fund earning assets dropped .16%.

The bank's past due loans and loans on non-accrual status of 1.60% continued to be well below national peers of 1.72%. This permitted, among other things, the provision for loan losses to remain low.

Your bank's capital remains strong with a tier one leverage capital ratio of 9.60%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 20.02%, and total risk based capital to risk-weighted assets at 21.14%.

Non-interest income was \$977,000 for the quarter ended September 30, 2014, compared to \$919,000 for the quarter ended September 30, 2013. The increase was primarily due to increases in the gains on sale of investment securities and mortgage loans. These gains were offset by a drop in Trust Department income, which included fees from an estate in 2013.

Non-interest expense increased \$96,000 or 3.73% from the third quarter of 2013. Various factors contributed to the increase including increases in professional fees and regulatory assessments.

Plans to relocate our Weis Market Office at Susquehanna Valley Mall to a new office in the Borough of Selinsgrove await approval from the Borough of Selinsgrove. It is now expected that this move will not occur until mid 2015. We believe that this move will allow us to better serve the community. Construction has begun on the expansion of our Hummels Wharf Office to provide additional space for commercial lending and to house NNB Financial Services. This additional space will allow for future growth through expansion of each of these areas.

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

Very truly yours,

J. Donald Steele, Jr.
Chairman & CEO

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
September 30, 2014 and 2013
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and Due From Banks	\$ 4,599	\$ 5,715
Interest Bearing Balances with Banks	7,915	11,141
Investment Securities	176,543	193,409
Loans Held for Sale	528	1,328
Loans, Net	267,982	256,890
Allowance for Loan Losses	(2,588)	(2,473)
Net Loans	<u>265,394</u>	<u>254,417</u>
Bank Premise and Equipment, Net	8,589	8,341
Accrued Interest Receivable	1,634	1,634
Other Assets	13,943	12,678
TOTAL ASSETS	<u>\$ 479,145</u>	<u>\$ 488,663</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:		
Non-interest Bearing	\$ 58,317	\$ 54,218
Interest Bearing	<u>373,410</u>	<u>390,233</u>
Total Deposits	431,727	444,451
Short Term Borrowing	0	0
Long Term Borrowing	0	0
Accrued Interest Payable	112	144
Other Liabilities	<u>966</u>	<u>1,989</u>
TOTAL LIABILITIES	432,805	446,584

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; 172,142 - 2014, 170,067 - 2013	(2,189)	(2,121)
Unrealized Gains (Loss) Available for Sale Securities	294	198
Comprehensive Income Adjustment	(589)	(1,914)
Minority Interest	(70)	(42)
Retained Earnings	<u>44,912</u>	<u>41,976</u>
TOTAL STOCKHOLDERS' EQUITY	<u>46,340</u>	<u>42,079</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 479,145</u>	<u>\$ 488,663</u>

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
September 30, 2014 and 2013
Amounts in thousands, except per share data

STATEMENT OF INCOME (Unaudited)

	Quarter Ended		Nine Months Ended	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
INTEREST INCOME				
Interest and Fees on Loans				
Taxable	\$ 2,985	\$ 3,038	\$ 8,908	\$ 9,084
Tax Exempt	45	25	135	62
Interest on Investment Securities				
Taxable	389	338	1,103	1,106
Tax Exempt	351	406	1,092	1,209
Dividends	34	8	90	24
Interest on Interest Bearing Balances with Banks	5	6	12	16
TOTAL INTEREST INCOME	<u>3,809</u>	<u>3,821</u>	<u>11,340</u>	<u>11,501</u>
INTEREST EXPENSE				
Deposits	700	878	2,184	2,730
Other	2	0	3	0
TOTAL INTEREST EXPENSE	<u>702</u>	<u>878</u>	<u>2,187</u>	<u>2,730</u>
NET INTEREST INCOME	<u>3,107</u>	<u>2,943</u>	<u>9,153</u>	<u>8,771</u>
Loan Loss Provision	130	13	168	33
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>2,977</u>	<u>2,930</u>	<u>8,985</u>	<u>8,738</u>
OTHER INCOME				
Gain (Loss) on Sale of Securities	101	33	187	264
Service Charges on Deposit Accounts	88	87	239	246
Gain (Loss) on Loans Held for Sale	232	168	604	949
Other Service Charges	366	397	1,082	1,071
Trust Department Income	190	234	470	510
TOTAL OTHER INCOME	<u>977</u>	<u>919</u>	<u>2,582</u>	<u>3,040</u>
OTHER EXPENSES				
Salaries and Benefits	1,448	1,455	4,398	4,359
Occupancy Expenses	372	349	1,103	1,049
Other	839	761	2,533	2,412
TOTAL OTHER EXPENSES	<u>2,659</u>	<u>2,565</u>	<u>8,034</u>	<u>7,820</u>
INCOME BEFORE INCOME TAXES	<u>1,295</u>	<u>1,284</u>	<u>3,533</u>	<u>3,958</u>
Income Taxes	282	275	747	881
NET INCOME	<u>\$ 1,013</u>	<u>\$ 1,009</u>	<u>\$ 2,786</u>	<u>\$ 3,077</u>
Earnings per share	<u>\$ 0.76</u>	<u>\$ 0.76</u>	<u>\$ 2.09</u>	<u>\$ 2.31</u>
Weighted Average Shares Outstanding	1,330,804	1,332,692	1,331,013	1,333,018