



The Northumberland National Bank

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August 6, 2014

Dear Shareholder:

Your company's assets grew for the twelve month period ended June 30, 2014, reaching \$483,392,000, which was an increase of 1.79% from June 30, 2013. Net loans, including loans held for sale, were \$263,327 at June 30, 2014, compared to \$251,983,000 at June 30, 2013 or an increase of 4.50%. Deposits increased to \$436,447,000 or 1.12% at June 30, 2014.

Northumberland Bancorp, parent company of The Northumberland National Bank, reported earnings for the quarter ended June 30, 2014 of \$937,000. Return on average assets and equity of the bank for the quarter were .78% and 8.30% respectively.

Net interest margin improved slightly from 2.86% in 2013 to 2.89% 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 \$265,975,000 from \$254,370,000 in the second quarter of 2013. The percentage of loans to assets increased to 55.09% in 2014 from 53.48% in June 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 1.50% continued to be well below national peers of 1.84%. 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 9.47%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 19.78%, and total risk based capital to risk-weighted assets at 20.85%.

Non-interest income was \$867,000 for the quarter ended June 30, 2014, compared to \$978,000 for the quarter ended June 30, 2013. The decrease is attributable to decreased income from the sale of loans in the secondary market, and lower gains from the sale of securities. These items were partially offset by revenue generated from NNB Financial Services. The decrease in the gain on sale of mortgages is directly attributable to lower levels of loan refinancing. While lower than a year ago, the gain in the second quarter showed improvement from the gain recognized in the first quarter of 2014. The bank is taking steps to improve its market share in purchase mortgage originations to help partially offset the decline in refinancing.

Non-interest expense increased \$56,000 or 2.12% from the second quarter of 2013. Various factors contributed to the increase including increases in salaries and benefits, 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 Hummel's 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 & President

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

STATEMENT OF CONDITION (Unaudited)

| | <u>2014</u> | <u>2013</u> |
|--------------------------------------|--------------------------|--------------------------|
| ASSETS | | |
| Cash and Due From Banks | \$ 5,608 | \$ 4,602 |
| Interest Bearing Balances with Banks | 5,428 | 9,782 |
| Investment Securities | 184,644 | 184,445 |
| Loans Held for Sale | 811 | 1,160 |
| Loans, net | 265,789 | 254,427 |
| Allowance for Loan Losses | (2,462) | (2,444) |
| Net Loans | <u>263,327</u> | <u>251,983</u> |
| Bank Premise and Equipment, Net | 8,531 | 8,361 |
| Accrued Interest Receivable | 1,634 | 1,634 |
| Other Assets | 13,409 | 12,926 |
| TOTAL ASSETS | \$ <u>483,392</u> | \$ <u>474,893</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--------------------------|----------------|----------------|
| Deposits: | | |
| Non-interest Bearing | \$ 55,666 | \$ 53,893 |
| Interest Bearing | <u>380,781</u> | <u>377,719</u> |
| Total Deposits | 436,447 | 431,612 |
| Short Term Borrowing | 0 | 0 |
| Long Term Borrowing | 0 | 0 |
| | | |
| Accrued Interest Payable | 117 | 146 |
| Other Liabilities | <u>1,008</u> | <u>1,827</u> |
| TOTAL LIABILITIES | 437,572 | 433,585 |

| | | |
|---|--------------------------|--------------------------|
| 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, 169,317 - 2013 | (2,189) | (2,096) |
| Unrealized Gains (Loss) Available for Sale Securities | 526 | 164 |
| Comprehensive Income Adjustment | (589) | (1,914) |
| Minority Interest | (62) | (36) |
| Retained Earnings | <u>44,152</u> | <u>41,208</u> |
| TOTAL STOCKHOLDERS' EQUITY | 45,820 | 41,308 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ <u>483,392</u> | \$ <u>474,893</u> |

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

STATEMENT OF INCOME (Unaudited)

| | Quarter Ended | | Six Months Ended | |
|--|----------------|-----------------|------------------|-----------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| INTEREST INCOME | | | | |
| Interest and Fees on Loans | | | | |
| Taxable | \$ 2,984 | \$ 3,053 | \$ 5,923 | \$ 6,046 |
| Tax Exempt | 44 | 17 | 90 | 38 |
| Interest on Investment Securities | | | | |
| Taxable | 372 | 403 | 725 | 768 |
| Tax Exempt | 362 | 397 | 730 | 803 |
| Dividends | 36 | 7 | 56 | 15 |
| Interest on Interest Bearing Balances with Banks | 6 | 6 | 8 | 10 |
| TOTAL INTEREST INCOME | <u>3,804</u> | <u>3,883</u> | <u>7,532</u> | <u>7,680</u> |
| INTEREST EXPENSE | | | | |
| Deposits | 733 | 904 | 1,485 | 1,851 |
| Other | 1 | 0 | 1 | 0 |
| TOTAL INTEREST EXPENSE | <u>734</u> | <u>904</u> | <u>1,486</u> | <u>1,851</u> |
| NET INTEREST INCOME | <u>3,070</u> | <u>2,979</u> | <u>6,046</u> | <u>5,829</u> |
| Loan Loss Provision | 33 | 12 | 38 | 20 |
| NET INTEREST INCOME AFTER LOAN LOSS PROVISION | <u>3,037</u> | <u>2,967</u> | <u>6,008</u> | <u>5,809</u> |
| OTHER INCOME | | | | |
| Gain (Loss) on Sale of Securities | 63 | 108 | 86 | 232 |
| Service Charges on Deposit Accounts | 80 | 83 | 151 | 159 |
| Gain (Loss) on Loans Held for Sale | 209 | 318 | 372 | 781 |
| Other Service Charges | 413 | 362 | 715 | 673 |
| Trust Department Income | 102 | 107 | 280 | 276 |
| TOTAL OTHER INCOME | <u>867</u> | <u>978</u> | <u>1,604</u> | <u>2,121</u> |
| OTHER EXPENSES | | | | |
| Salaries and Benefits | 1,444 | 1,417 | 2,950 | 2,905 |
| Occupancy Expenses | 362 | 338 | 731 | 700 |
| Other | 891 | 886 | 1,694 | 1,650 |
| TOTAL OTHER EXPENSES | <u>2,697</u> | <u>2,641</u> | <u>5,375</u> | <u>5,255</u> |
| INCOME BEFORE INCOME TAXES | <u>1,207</u> | <u>1,304</u> | <u>2,237</u> | <u>2,675</u> |
| Income Taxes | 270 | 296 | 464 | 607 |
| NET INCOME | <u>\$ 937</u> | <u>\$ 1,008</u> | <u>\$ 1,773</u> | <u>\$ 2,068</u> |
| Earnings per share | <u>\$ 0.70</u> | <u>\$ 0.76</u> | <u>\$ 1.33</u> | <u>\$ 1.55</u> |
| Weighted Average Shares Outstanding | 1,330,804 | 1,333,183 | 1,331,346 | 1,333,183 |