



The Northumberland National Bank

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May 30, 2014

Dear Shareholder:

Your company's assets grew for the twelve month period ended March 31, 2014, reaching \$482,987,000, which was an increase of 2.95% from March 31, 2013. Net loans, including loans held for sale, were \$264,789,000 at March 31, 2014, compared to \$248,852,000 at March 31, 2013 or an increase of 6.40%. Deposits increased to \$437,486,000 or 3.22% at March 31, 2014.

Northumberland Bancorp, parent company of The Northumberland National Bank, reported earnings for the quarter ended March 31, 2014 of \$837,000. Return on average assets and equity of the bank for the quarter were .77% and 8.17% respectively.

Net interest margin improved slightly from 2.85% 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 margin. Average loans in the quarter increased to \$265,957,000 from \$245,611,000 in the first quarter of 2013. The percentage of loans to assets increased to 55.14% in 2014 from 52.71 in March of 2013. The margin difference between the yield on loans for the quarter compared to the yield on investments resulted in an approximate 2.9% improvement in net margin on additional percentage of assets allocated to loans.

The bank's past due loans and loans on non-accrual status of 1.19% continued to be well below national peers of 2.16%. 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 9.48%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 19.51%, and total risk based capital to risk-weighted assets at 20.58%.

Non-interest income was \$737,000 for the quarter ended March 31, 2014, compared to \$1,143,000 for the quarter ended March 31, 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 increases in trust income and revenue from NNB Financial Services. This decrease in the gain on sale of mortgages is directly attributable to a lower level of loan refinancing. 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 \$64,000 or 2.45% from the first quarter of 2013. Various factors contributed to the increase including increases in salaries and benefits, professional fees and regulatory assessments.

During the year the bank plans to relocate its Weis Market Office at Susquehanna Valley Mall to a new office in the Borough of Selinsgrove. We believe that this move will allow us to better serve the community. In addition, we will be expanding our Hummel's Wharf Office to provide additional space for commercial lending and to house NNB Financial Services. This space will allow for the future 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
March 31, 2014 and 2013
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and Due From Banks	\$ 6,640	\$ 3,507
Interest Bearing Balances with Banks	12,697	14,321
Investment Securities	175,749	181,244
Loans Held for Sale	1,150	971
Loans, net	266,113	250,339
Allowance for Loan Losses	(2,474)	(2,458)
Net Loans	<u>263,639</u>	<u>247,881</u>
Bank Premise and Equipment, Net	8,346	8,477
Accrued Interest Receivable	1,509	1,614
Other Assets	13,257	11,114
TOTAL ASSETS	\$ <u>482,987</u>	\$ <u>469,129</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest Bearing	\$ 56,501	\$ 53,903
Interest Bearing	380,985	369,926
Total Deposits	<u>437,486</u>	<u>423,829</u>
Long Term Borrowing	0	0
Accrued Interest Payable	129	173
Other Liabilities	664	2,735
TOTAL LIABILITIES	<u>438,279</u>	<u>426,737</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; 170,617 - 2014; 169,317 - 2013	(2,139)	(2,096)
Unrealized Gains (Loss) Available for Sale Securities	58	2,027
Comprehensive Income Adjustment	(589)	(1,914)
Minority Interest	(58)	(20)
Retained Earnings	43,454	40,413
TOTAL STOCKHOLDERS' EQUITY	<u>44,708</u>	<u>42,392</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>482,987</u>	\$ <u>469,129</u>

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
March 31, 2014 and 2013
Amounts in thousands, except per share data

STATEMENT OF INCOME (Unaudited)

	Quarter Ended	
	<u>2014</u>	<u>2013</u>
INTEREST INCOME		
Interest and Fees on Loans		
Taxable	\$ 2,939	\$ 2,994
Tax Exempt	46	20
 Interest on Investment Securities		
Taxable	367	373
Tax Exempt	374	405
Dividends	2	1
Interest on Interest Bearing Balances with Banks	2	4
TOTAL INTEREST INCOME	<u>3,730</u>	<u>3,797</u>
 INTEREST EXPENSE		
Deposits	753	946
Other	0	0
TOTAL INTEREST EXPENSE	<u>753</u>	<u>946</u>
NET INTEREST INCOME	<u>2,977</u>	<u>2,851</u>
Loan Loss Provision	5	8
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>2,972</u>	<u>2,843</u>
 OTHER INCOME		
Gain (Loss) on Sale of Securities	23	124
Service Charges on Deposit Accounts	71	76
Gain (Loss) on Loans Held for Sale	164	464
Other	301	310
Trust Department Income	178	169
TOTAL OTHER INCOME	<u>737</u>	<u>1,143</u>
 OTHER EXPENSES		
Salaries and Benefits	1,505	1,488
Occupancy Expenses	370	362
Other	803	764
TOTAL OTHER EXPENSES	<u>2,678</u>	<u>2,614</u>
 INCOME BEFORE INCOME TAXES	 1,031	 1,372
Income Taxes	194	312
 NET INCOME	 <u>\$ 837</u>	 <u>\$ 1,060</u>
 Earnings per share	 \$ 0.63	 \$ 0.79
 Weighted Average Shares Outstanding	 1,331,893	 1,333,183