



# The Northumberland National Bank

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August 26, 2013

Dear Shareholder:

Your company's assets grew nicely for the twelve month period ended June 30, 2013, reaching \$474,893,000, which was an increase of 3.54% from June 30, 2012. Net loans, including loans held for sale, were \$253,143,000 at June 30, 2013, compared to \$244,173,000 at June 30, 2012. Deposits increased to \$431,612,000.

I am pleased to report that Northumberland Bancorp, parent company of The Northumberland National Bank, reported earnings for the quarter ended June 30, 2013 of \$1,008,000. Return on average assets and equity of the Bank for the quarter were .85% and 9.50% respectively. For the six month period ending June 30, 2013, the company earned \$2,068,000. Return on average assets and equity of the Bank year to date were .89% and 9.84% respectively.

Net interest margin dropped from 2.94% in 2012 to 2.86% in 2013. The margin in the second quarter of 2013 increased one basis point from the first quarter of 2013. As the low interest rate environment has continued, the decline in the yield on earning assets has exceeded the decline in the funding cost, resulting in a lower margin. Management is taking steps to increase the level of loans, which carry a higher yield over investments, while continuing to reduce the funding costs. Average loans in the second quarter increased to \$254,370,000 from \$245,611,000 in the first quarter of 2013.

The Bank's past due loans and loans on non-accrual status of 1.62% continued to be well below national peers of 2.47%. 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 9.02%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 19.48%, and total risk based capital to risk weighted assets at 20.59%.

Non-interest income was \$978,000 for the quarter ended June 30, 2013, compared to \$936,000 for the quarter ended June 30, 2012. The increase is attributable to increased income from trust and investment activities, increases in the cash surrender value of life insurance, and mortgage servicing income which were partially offset by a decline in the income from mortgage loan sales. This decrease is attributable to a lower level of loan refinancing.

Non-interest expense increased \$219,000 or 9.04% from the second quarter of 2012. The primary factor leading to this increase was an increase in salary and benefits of \$96,000 resulting from increases in health insurance, retirement costs and increases in salaries. The major factors contributing to the \$109,000 increase in other expenses were the amortization of mortgage servicing rights, loan collections costs and expenses associated with the bank ATM/Debit Card program.

It is with sadness that we note the death of long time director and officer Roy H. Moyer, Jr. Roy passed away June 4, 2013. He served the bank for over 64 years. His commitment to customer service and service to the community will be greatly missed.

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, 2013 and 2012**  
**Amounts in thousands**

STATEMENT OF CONDITION (Unaudited)

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 4,602	\$ 6,182
Interest Bearing Balances with Banks	9,782	9,631
Investment Securities	184,445	177,286
Loans Held for Sale	1,160	1,058
Loans, net	254,427	245,622
Allowance for Loan Losses	(2,444)	(2,507)
Net Loans	<u>251,983</u>	<u>243,115</u>
Bank Premise and Equipment, Net	8,361	8,764
Accrued Interest Receivable	1,634	1,172
Other Assets	12,926	11,439
<b>TOTAL ASSETS</b>	<u><u>\$ 474,893</u></u>	<u><u>\$ 458,647</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:		
Non-interest Bearing	\$ 53,893	\$ 41,492
Interest Bearing	<u>377,719</u>	<u>374,868</u>
Total Deposits	431,612	416,360
Short Term Borrowing	0	0
Long Term Borrowing	0	0
Accrued Interest Payable	146	204
Other Liabilities	<u>1,827</u>	<u>2,090</u>
<b>TOTAL LIABILITIES</b>	433,585	418,654

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; 169,317 - 2013, 166,978 - 2012	(2,096)	(2,025)
Unrealized Gains (Loss) Available for Sale Securities	164	2,103
Comprehensive Income Adjustment	(1,914)	(1,775)
Minority Interest	(36)	0
Retained Earnings	<u>41,208</u>	<u>37,708</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>41,308</u>	<u>39,993</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 474,893</u></u>	<u><u>\$ 458,647</u></u>

**NORTHUMBERLAND BANCORP**  
**245 Front Street, Northumberland, PA**  
**For the Quarter Ending**  
**June 30, 2013 and 2012**  
**Amounts in thousands, except per share data**

STATEMENT OF INCOME (Unaudited)

	Quarter Ended		Six Months Ended	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>INTEREST INCOME</b>				
Interest and Fees on Loans				
Taxable	\$ 3,053	\$ 3,316	\$ 6,046	\$ 6,784
Tax Exempt	17	27	38	55
Interest on Investment Securities				
Taxable	403	436	768	886
Tax Exempt	397	393	803	782
Dividends	7	5	15	7
Interest on Interest Bearing Balances with Banks	6	8	10	13
<b>TOTAL INTEREST INCOME</b>	<u>3,883</u>	<u>4,185</u>	<u>7,680</u>	<u>8,527</u>
<b>INTEREST EXPENSE</b>				
Deposits	904	1,188	1,851	2,413
Other	0	48	0	115
<b>TOTAL INTEREST EXPENSE</b>	<u>904</u>	<u>1,236</u>	<u>1,851</u>	<u>2,528</u>
<b>NET INTEREST INCOME</b>	<u>2,979</u>	<u>2,949</u>	<u>5,829</u>	<u>5,999</u>
Loan Loss Provision	12	32	20	55
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISION</b>	<u>2,967</u>	<u>2,917</u>	<u>5,809</u>	<u>5,944</u>
<b>OTHER INCOME</b>				
Gain (Loss) on Sale of Securities	108	117	232	190
Service Charges on Deposit Accounts	83	83	159	161
Gain (Loss) on Loans Held for Sale	318	374	781	680
Other Service Charges	362	274	673	461
Trust Department Income	107	88	276	249
<b>TOTAL OTHER INCOME</b>	<u>978</u>	<u>936</u>	<u>2,121</u>	<u>1,741</u>
<b>OTHER EXPENSES</b>				
Salaries and Benefits	1,417	1,321	2,905	2,650
Occupancy Expenses	338	333	700	669
Other	886	768	1,650	1,484
<b>TOTAL OTHER EXPENSES</b>	<u>2,641</u>	<u>2,422</u>	<u>5,255</u>	<u>4,803</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>1,304</u>	<u>1,431</u>	<u>2,675</u>	<u>2,882</u>
Income Taxes	296	345	607	712
<b>NET INCOME</b>	<u>\$ 1,008</u>	<u>\$ 1,086</u>	<u>\$ 2,068</u>	<u>\$ 2,170</u>
Earnings per share	<u>\$ 0.76</u>	<u>\$ 0.81</u>	<u>\$ 1.55</u>	<u>\$ 1.62</u>
Weighted Average Shares Outstanding	1,333,183	1,335,522	1,333,183	1,335,522