



The Northumberland National Bank

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May 16, 2013

Dear Shareholder:

I am very pleased to report that Northumberland Bancorp, parent company of The Northumberland National Bank, reported earnings for the quarter ended March 31, 2013 of \$1,060,000. Return on average assets and equity of the Bank for the quarter were .92% and 10.19% respectively.

Net interest margin dropped from 3.05% in 2012 to 2.85% in 2013 as loans on average for the quarter decreased as a percentage of earning assets. Loans at quarter end increased from year end by 2.3%. 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.

Total assets on March 31, 2013 were \$469,129,000, which was an increase of 1.01% from December 31, 2012. Net loans, including loans held for sale, were \$248,852,000 at March 31, 2013, compared to \$243,167,000 at December 31, 2012. Deposits increased to \$423,829,000.

The bank's past due loans and loans on non-accrual status of 1.57% continued to be well below national peers of 2.85%. 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 9.06%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 19.80%, and total risk based capital to risk weighted assets at 20.95%.

Non-interest income was \$1,143,000 for the quarter ended March 31, 2013, compared to \$805,000 for the quarter ended March 31, 2012. Contributing to this 42% increase in non-interest income was an increase of \$158,000 in the gain on sale of mortgages; \$56,000 increase in the cash surrender value of bank owned life insurance; and \$16,000 increase in gross income obtained from mortgage servicing.

Non-interest expense increased \$233,000 or 9.8% from the first quarter of 2012. The primary factor leading to this increase was an increase in salary and benefits of \$159,000 resulting from increases in health insurance, retirement costs and increases in salaries. The major factor contributing to the \$48,000 increase in other expense was the amortization of mortgage servicing rights.

The bank's branch at Hilsher's General Store in Port Trevorton, Pennsylvania has had significant growth. We are working with Hilsher's to expand our space to better serve the needs of our customers.

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, 2013 and 2012
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and Due From Banks	\$ 3,507	\$ 4,424
Interest Bearing Balances with Banks	14,321	22,592
Investment Securities	181,244	166,303
Loans Held for Sale	971	1,452
Loans, net	250,339	250,177
Allowance for Loan Losses	(2,458)	(2,520)
Net Loans	<u>247,881</u>	<u>247,657</u>
Bank Premise and Equipment, Net	8,477	8,788
Accrued Interest Receivable	1,614	1,462
Other Assets	11,114	4,539
TOTAL ASSETS	<u>\$ 469,129</u>	<u>\$ 457,217</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest Bearing	\$ 53,903	\$ 39,791
Interest Bearing	369,926	370,621
Total Deposits	<u>423,829</u>	<u>410,412</u>
Long Term Borrowing	0	5,072
Accrued Interest Payable	173	238
Other Liabilities	2,735	2,643
TOTAL LIABILITIES	<u>426,737</u>	<u>418,365</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; 169,317 - 2013, 166,978 - 2012	(2,096)	(2,025)
Unrealized Gains (Loss) Available for Sale Securities	2,027	1,861
Comprehensive Income Adjustment	(1,914)	(1,775)
Minority Interest	(20)	0
Retained Earnings	40,413	36,809
TOTAL STOCKHOLDERS' EQUITY	<u>42,392</u>	<u>38,852</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 469,129</u>	<u>\$ 457,217</u>

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
March 31, 2013 and 2012
Amounts in thousands, except for per share data

STATEMENT OF INCOME (Unaudited)

	Quarter Ended	
	<u>2013</u>	<u>2012</u>
INTEREST INCOME		
Interest and Fees on Loans		
Taxable	2,994	3,468
Tax Exempt	20	27
Interest on Investment Securities		
Taxable	373	450
Tax Exempt	405	389
Dividends	1	2
Interest on Interest Bearing Balances with Banks	4	5
TOTAL INTEREST INCOME	<u>3,797</u>	<u>4,341</u>
INTEREST EXPENSE		
Deposits	946	1,225
Other	0	67
TOTAL INTEREST EXPENSE	<u>946</u>	<u>1,292</u>
NET INTEREST INCOME	<u>2,851</u>	<u>3,049</u>
Loan Loss Provision	8	23
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>2,843</u>	<u>3,026</u>
OTHER INCOME		
Gain (Loss) on Sale of Securities	124	73
Service Charges on Deposit Accounts	76	78
Gain (Loss) on Loans Held for Sale	464	306
Other	310	187
Trust Department Income	169	161
TOTAL OTHER INCOME	<u>1,143</u>	<u>805</u>
OTHER EXPENSES		
Salaries and Benefits	1,488	1,329
Occupancy Expenses	362	336
Other	764	716
TOTAL OTHER EXPENSES	<u>2,614</u>	<u>2,381</u>
INCOME BEFORE INCOME TAXES	<u>1,372</u>	<u>1,450</u>
Income Taxes	312	366
NET INCOME	<u><u>1,060</u></u>	<u><u>1,084</u></u>
Earnings per share	0.79	0.81
Weighted Average Shares Outstanding	1,333,183	1,335,522