



The Northumberland National Bank

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

December 5, 2013

Dear Shareholder:

Your company's assets grew nicely for the twelve month period ended September 30, 2013, reaching \$488,663,000, which was an increase of 4.83% from September 30, 2012. Net loans, including loans held for sale, were \$255,745,000 at June 30, 2013, compared to \$237,961,000 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 September 30, 2013 of \$1,009,000. Return on average assets and equity of the Bank for the quarter were .84% and 9.62% respectively. For the nine month period ending June 30, 2013, the company earned \$3,077,000. Return on average assets and equity of the Bank year to date were .87% and 9.77% respectively.

Net interest margin dropped from 2.84% in 2012 to 2.78 % 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 1.79% continued to be well below national peers of 2.29%. 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 9.13%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 19.57%, and total risk based capital to risk-weighted assets at 20.67%.

Non-interest income was \$919,000 for the quarter ended September 30, 2013, compared to \$1,191,000 for the quarter ended September 30, 2012. 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, higher income from debit cards and revenue from NNB Financial Services. This decrease in the gain on sale of mortgages is attributable to a lower level of loan refinancing.

Non-interest expense increased \$164,000 or 6.83% from the third quarter of 2012. The primary factor leading to this increase was an increase in salary and benefits of \$89,000 resulting from increases in health insurance costs and increases in salaries. Other major factors contributing to the \$164,000 increase in other expenses were the amortization of mortgage servicing rights, the timing of certain contributions and expenses associated with the bank ATM/Debit Card program.

The bank recently implemented mobile banking to allow customers to perform certain banking functions by using their smart phones and iPads. The bank also began implementation of

J. Donald Steele, Jr.
Chairman & President

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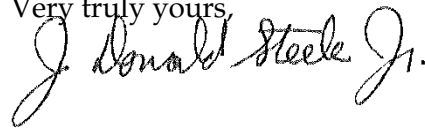
"Your Local Community Independent Bank"

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document imaging for various bank records. Imaging of documents will reduce the use of paper, enhance operations and hopefully reduce cost in the long run. Based on the success of our Port Trevorton Office in Hilsher's General Store, we worked with Hilsher's to expand our space to add an additional office and some much needed storage.

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

Very truly yours,

A handwritten signature in black ink that reads "J. Donald Steele, Jr." The signature is written in a cursive style with a large, prominent initial "J".

J. Donald Steele, Jr.
Chairman & President

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
September 30, 2013 and 2012
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and Due From Banks	\$ 5,715	\$ 5,843
Interest Bearing Balances with Banks	11,141	11,526
Investment Securities	193,409	189,795
Loans Held for Sale	1,328	1,361
Loans, net	256,890	239,058
Allowance for Loan Losses	<u>(2,473)</u>	<u>(2,458)</u>
Net Loans	254,417	236,600
Bank Premise and Equipment, Net	8,341	8,646
Accrued Interest Receivable	1,634	1,172
Other Assets	<u>12,678</u>	<u>11,212</u>
TOTAL ASSETS	\$ <u>488,663</u>	\$ <u>466,155</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest Bearing	\$ 54,218	\$ 44,483
Interest Bearing	<u>390,233</u>	<u>377,622</u>
Total Deposits	444,451	422,105
Short Term Borrowing	0	0
Long Term Borrowing	0	0
Accrued Interest Payable	144	188
Other Liabilities	<u>1,989</u>	<u>2,377</u>
TOTAL LIABILITIES	446,584	424,670
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; 170,067 - 2013, 166,978 - 2012	(2,121)	(2,025)
Unrealized Gains (Loss) Available for Sale Securities	198	2,560
Comprehensive Income Adjustment	(1,914)	(1,775)
Minority Interest	(42)	0
Retained Earnings	<u>41,976</u>	<u>38,743</u>
TOTAL STOCKHOLDERS' EQUITY	42,079	41,485
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>488,663</u>	\$ <u>466,155</u>

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

STATEMENT OF INCOME (Unaudited)

	Quarter Ended		Nine Months Ended	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
INTEREST INCOME				
Interest and Fees on Loans				
Taxable	\$ 3,038	\$ 3,161	\$ 9,084	\$ 9,944
Tax Exempt	25	25	62	80
Interest on Investment Securities				
Taxable	338	398	1,106	1,284
Tax Exempt	406	401	1,209	1,183
Dividends	8	2	24	9
Interest on Interest Bearing Balances with Banks	6	5	16	18
TOTAL INTEREST INCOME	<u>3,821</u>	<u>3,992</u>	<u>11,501</u>	<u>12,518</u>
INTEREST EXPENSE				
Deposits	878	1,123	2,730	3,535
Other	0	0	0	115
TOTAL INTEREST EXPENSE	<u>878</u>	<u>1,123</u>	<u>2,730</u>	<u>3,650</u>
NET INTEREST INCOME	<u>2,943</u>	<u>2,869</u>	<u>8,771</u>	<u>8,868</u>
Loan Loss Provision	13	9	33	64
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>2,930</u>	<u>2,860</u>	<u>8,738</u>	<u>8,804</u>
OTHER INCOME				
Gain (Loss) on Sale of Securities	33	117	264	307
Service Charges on Deposit Accounts	87	87	246	247
Gain (Loss) on Loans Held for Sale	168	446	949	1,126
Other Service Charges	397	348	1,071	809
Trust Department Income	234	193	510	443
TOTAL OTHER INCOME	<u>919</u>	<u>1,191</u>	<u>3,040</u>	<u>2,932</u>
OTHER EXPENSES				
Salaries and Benefits	1,455	1,366	4,359	4,016
Occupancy Expenses	349	338	1,049	1,006
Other	761	697	2,412	2,182
TOTAL OTHER EXPENSES	<u>2,565</u>	<u>2,401</u>	<u>7,820</u>	<u>7,204</u>
INCOME BEFORE INCOME TAXES	<u>1,284</u>	<u>1,650</u>	<u>3,958</u>	<u>4,532</u>
Income Taxes	275	401	881	1,113
NET INCOME	<u>\$ 1,009</u>	<u>\$ 1,249</u>	<u>\$ 3,077</u>	<u>\$ 3,419</u>
Earnings per share	<u>\$ 0.76</u>	<u>\$ 0.93</u>	<u>\$ 2.31</u>	<u>\$ 2.56</u>
Weighted Average Shares Outstanding	1,332,692	1,335,522	1,333,018	1,335,522