

Northumberland Bancorp

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August 17, 2020

Dear Shareholder:

Your Bank continues to deal with the changes in the economy, our community and bank operations brought on by the COVID-19 pandemic. During the quarter we reopened our lobbies while providing safety precautions such as masks, Plexiglas barriers and hand sanitizer. After much delay, the bank was able to assist our customers by making Payroll Protection Program loans totaling over \$5,000,000. Additionally, we continue to work as needed with customers that are experiencing financial difficulties during the pandemic.

The Company continued to grow during the second quarter of 2020. The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, reached \$574,971,000 as of June 30, 2020, compared to \$534,472,000 at June 30, 2019. Loans, including loans held for sale, grew 2.24% over the past year to \$370,947,000 at June 30, 2020 compared to \$362,828,000 at the end of the second quarter of 2019. This growth was split between commercial and residential real estate loans. Funding this growth was an increase in deposits, Federal Home Loan Bank advances and a decrease in investment securities. The current low interest rates have led to significant growth in our mortgage banking area as well. These loans which are sold to Fannie Mae or other agencies increased 231.1% for the first six months of 2020.

Reported earnings for the quarter ended June 30, 2020 was \$999,000, an increase of \$232,000 from the prior year. The net interest margin declined to 2.97% from 3.28% in the prior year. This decline was a result of the lower market rates in effect for the entire period and a lower loan to deposit ratio, both as a result of significant deposit growth and a slight decline in loans for the quarter. Non-interest income increased \$303,000 or 32.8%. The increase primarily came from mortgage banking income, trust income and fees on debit card interchange transactions. Non-interest expense decreased \$111,000 primarily due to a decrease in professional services and data processing costs.

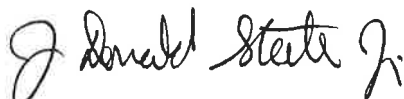
The Bank's asset quality remains strong. Charge offs during the quarter were 00% of average loans outstanding compared to peer group of .06%. The level of classified loans is low at 11.4% of tier one capital.

Your Bank remains well capitalized with a tier one leverage capital ratio of 10.15%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 17.03%, and total risk based capital to risk-weighted assets at 18.13%.

As we reported in the first quarter letter, we continue to focus on identifying digital products to make banking, faster, easier and safe for our customers. Installation of new modern ATM machines in each of our locations was completed during the first half of the year. A project is underway to develop the capability to open new deposit accounts online. This initiative marks an exciting time in banking as we introduce new tools to deliver our products and services in a multi-channel format.

We thank you, our shareholders, for your continued support. Stay healthy, during this challenging time for our nation.

Sincerely,



J. Donald Steele, Jr.
Chairman



J. Todd Troxell
President

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
June 30, 2020 and 2019
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and Due From Banks	\$ 5,732	\$ 4,659
Interest Bearing Balances with Banks	22,579	5,767
Investment Securities	150,657	136,065
Loans Held for Sale	3,174	851
Loans	367,773	361,978
Allowance for Loan Losses	(3,679)	(3,266)
Net Loans	<u>364,094</u>	<u>358,712</u>
Bank Premise and Equipment, Net	9,449	9,356
Accrued Interest Receivable	1,342	1,721
Other Assets	17,944	17,341
TOTAL ASSETS	<u>\$ 574,971</u>	<u>\$ 534,472</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest Bearing	\$ 117,249	\$ 97,353
Interest Bearing	393,994	379,980
Total Deposits	<u>511,243</u>	<u>477,333</u>
Short Term Borrowing	1,000	0
Long Term Borrowing	1,000	0
Accrued Interest Payable	135	140
Other Liabilities	1,901	2,457
TOTAL LIABILITIES	<u>515,279</u>	<u>479,930</u>
Stockholders' Equity		
Preferred Stock-2,000,000 Shares Authorized;		
None Outstanding		
Common Stock-Par Value \$0.10; 5,000,000 Authorized		
1,502,500 Issued	150	150
Surplus	3,832	3,832
Treasury Stock; 2020 - 174,642; 2019 - 174,642	(2,265)	(2,265)
Unrealized Gains (Loss) Available for Sale Securities	2,126	189
Comprehensive Income Adjustment	0	(722)
Minority Interest	(14)	(51)
Retained Earnings	<u>55,863</u>	<u>53,409</u>
TOTAL STOCKHOLDERS' EQUITY	<u>59,692</u>	<u>54,542</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 574,971</u>	<u>\$ 534,472</u>

**For the Quarter Ending
June 30, 2020 and 2019**
Amounts in thousands, except per share data

STATEMENT OF INCOME (Unaudited)	Quarter Ended		6 Months Ended	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
INTEREST INCOME				
Interest and Fees on Loans				
Taxable	4,032	\$ 4,087	\$ 8,283	\$ 8,091
Tax Exempt	55	97	110	185
Interest on Investment Securities				
Taxable	385	545	823	1,119
Tax Exempt	178	194	350	402
Dividends	55	66	121	130
Interest on Interest Bearing Balances with Banks	5	57	25	100
TOTAL INTEREST INCOME	<u>4,710</u>	<u>5,046</u>	<u>9,712</u>	<u>10,027</u>
INTEREST EXPENSE				
Deposits	903	1,114	1,916	2,184
Other	14	1	34	7
TOTAL INTEREST EXPENSE	<u>917</u>	<u>1,115</u>	<u>1,950</u>	<u>2,191</u>
NET INTEREST INCOME	<u>3,793</u>	<u>3,931</u>	<u>7,762</u>	<u>7,836</u>
Loan Loss Provision	52	82	222	127
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>3,741</u>	<u>3,849</u>	<u>7,540</u>	<u>7,709</u>
OTHER INCOME				
Change in Fair Value of Equity Securities	4	22	(65)	26
Gain (Loss) on Sale of Securities	24	22	27	28
Service Charges on Deposit Accounts	54	94	142	181
Gain (Loss) on Loans Held for Sale	428	94	638	230
Other Noninterest Income	515	462	1,043	924
Trust Department Income	201	229	430	421
TOTAL OTHER INCOME	<u>1,226</u>	<u>923</u>	<u>2,215</u>	<u>1,810</u>
OTHER EXPENSES				
Salaries and Benefits	2,156	2,124	4,430	4,234
Occupancy Expenses	426	424	852	867
Other	1,192	1,338	2,398	2,540
TOTAL OTHER EXPENSES	<u>3,774</u>	<u>3,886</u>	<u>7,680</u>	<u>7,641</u>
INCOME BEFORE INCOME TAXES	1,193	886	2,075	1,878
Income Taxes	194	119	323	255
NET INCOME	<u>\$ 999</u>	<u>\$ 767</u>	<u>\$ 1,752</u>	<u>\$ 1,623</u>
Earnings per share	<u>\$ 0.75</u>	<u>\$ 0.58</u>	<u>\$ 1.32</u>	<u>\$ 1.22</u>
Weighted Average Shares Outstanding	1,327,858	1,327,858	1,327,858	1,327,858