

Northumberland Bancorp

245 Front Street • P.O. Box 271 • Northumberland, PA 17857
(570) 473-3531 Fax (570) 473-9697

May 14, 2020

Dear Shareholder:

Your Company entered a new era of financial uncertainty in mid-March as the Covid-19 pandemic spread across the nation and the world. The pandemic has caused several major impacts on your Company. Over the last year the Federal Reserve Bank decreased the targeted federal funds rate by 2.25%, with 1.5% of this decrease happening in the first quarter of this year. This had a major impact on net interest margin. The stay at home order has led to record unemployment, as a result of businesses closings. It is too early to determine the extent that these factors will impact loan delinquencies down the road, and as a result, during the second quarter we have posted an increase in our provision for loan loss.

Your Company continued to grow during the first quarter of 2020. The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, reached \$544,143,000 as of March 31, 2020, compared to \$533,713,000 on March 31, 2019. Net loans, including loans held for sale, grew 5.84% over the past year to \$373,292,000 as of March 31, 2020, compared to \$352,688,000 at the end of the first 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.

Reported earnings for the quarter ended March 31, 2020, was \$754,000, a decrease of \$102,000 from the prior year. While the net interest margin declined to 3.26% from 3.32% in the prior year, loan growth drove a \$63,000 increase in net interest income during the quarter. As a result of the loan growth and the potential impact of the adverse economic conditions, the bank posted an increase in its Allowance for Loan Losses of \$170,000. Non-interest income increased \$100,000 or 11.3%. The increase primarily came from mortgage banking income, trust income and fees on debit card interchange transactions. Non-interest expense increased \$149,000. The increase in non-interest expense is primarily attributable to an increase in health insurance costs.


The Bank's asset quality remains strong. Charge offs during the quarter were -.04% of average loans outstanding, due to a net recovery. The level of classified loans is low at 10.6% of tier one capital.

Your Bank remains well capitalized with a tier one leverage capital ratio of 10.51%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 16.62%, and total risk based capital to risk-weighted assets at 17.68%.

In this new environment we will continue to work on introducing digital products to make banking faster, easier and safe for our customers. In order to protect our customers and employees from spreading the Covid-19 virus, we closed our lobbies and focused our delivery of banking products and services through our electronic capabilities and drive through lanes. We are continually evaluating conditions to determine the best time to open our lobbies. When we do open, you will most likely see that we have installed safety equipment to protect our customers and employees, as much as possible.

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

Sincerely,



J. Donald Steele, Jr.
Chairman & CEO



J. Todd Troxell
President & COO

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
March 31, 2020 and 2019
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and Due From Banks	\$ 4,040	\$ 5,586
Interest Bearing Balances with Banks	15,134	11,327
Investment Securities	122,965	135,148
Loans Held for Sale	2,288	929
Loans	374,660	354,962
Allowance for Loan Losses	(3,656)	(3,203)
Net Loans	<u>371,004</u>	<u>351,759</u>
Bank Premise and Equipment, Net	9,565	9,436
Accrued Interest Receivable	1,412	1,670
Other Assets	17,735	17,858
TOTAL ASSETS	\$ <u>544,143</u>	\$ <u>533,713</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest Bearing	\$ 101,232	\$ 95,883
Interest Bearing	379,286	381,927
Total Deposits	<u>480,518</u>	<u>477,810</u>
Short Term Borrowing	3,500	0
Long Term Borrowing	0	0
Accrued Interest Payable	149	145
Other Liabilities	1,701	2,541
TOTAL LIABILITIES	<u>485,868</u>	<u>480,496</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	1,438	(636)
Comprehensive Income Adjustment	0	(722)
Minority Interest	(24)	(49)
Retained Earnings	55,144	52,907
TOTAL STOCKHOLDERS' EQUITY	<u>58,275</u>	<u>53,217</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>544,143</u>	\$ <u>533,713</u>

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
March 31, 2020 and 2019
Amounts in thousands, except for per share data

STATEMENT OF INCOME (Unaudited)	Quarter Ended	
	<u>2020</u>	<u>2019</u>
INTEREST INCOME		
Interest and Fees on Loans		
Taxable	4,251 \$	4,003
Tax Exempt	55	88
 Interest on Investment Securities		
Taxable	438	575
Tax Exempt	173	207
Dividends	65	64
Interest on Interest Bearing Balances with Banks	20	43
TOTAL INTEREST INCOME	<u>5,002</u>	<u>4,980</u>
 INTEREST EXPENSE		
Deposits	1,013	1,070
Other	21	5
TOTAL INTEREST EXPENSE	<u>1,034</u>	<u>1,075</u>
NET INTEREST INCOME	<u>3,968</u>	<u>3,905</u>
Loan Loss Provision	170	45
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>3,798</u>	<u>3,860</u>
 OTHER INCOME		
Change in Fair Value of Equity Securities	(70)	4
Gain (Loss) on Sale of Securities	3	6
Service Charges on Deposit Accounts	88	87
Gain (Loss) on Loans Held for Sale	211	137
Other Noninterest Income	528	463
Trust Department Income	228	191
TOTAL OTHER INCOME	<u>988</u>	<u>888</u>
 OTHER EXPENSES		
Salaries and Benefits	2,272	2,110
Occupancy Expenses	426	443
Other	1,206	1,202
TOTAL OTHER EXPENSES	<u>3,904</u>	<u>3,755</u>
 INCOME BEFORE INCOME TAXES	 882	 993
Income Taxes	128	137
 NET INCOME	 <u>\$ 754</u>	 <u>\$ 856</u>
 Earnings per share	 <u>\$ 0.57</u>	 <u>\$ 0.64</u>
 Weighted Average Shares Outstanding	 1,327,858	 1,327,858