

# Northumberland Bancorp

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

December 08, 2021

Dear Shareholder:

During the third quarter of 2021, the Company's assets continued to grow, reaching a new high of \$694.0 million on September 30, 2021, as compared to \$661.5 on June 30, 2021. Overall liquidity in the banking system remains high. Your company experienced an increase in total deposits since June 30, 2021 of over \$32.0 million, ending the third quarter at \$619.4 million. Even more dramatic is the increase in deposits year over year, when compared to total deposits of \$524.9 million on September 30, 2020. This year over year growth was \$94.5 million, or 18%.

Net loans, excluding loans held for sale, increased by over \$4.4 million, to \$363.6 million at September 30, 2021, compared to \$359.2 million at June 30, 2021. A few larger prepayments during the period as well as some customers taking advantage of refinancing out of portfolio and into our "sold mortgage loan" offerings made it difficult to greatly "move the needle" in terms of total net loan growth. However, our reported loans "in the pipeline" may provide for additional net loan growth by year end combined with an expected low need for additional loss reserves.

The Company's asset quality remains strong. There were no loans charged off during the quarter and the quarter ended with an overall past due ratio of less than 0.50%. The level of classified loans is very low at 7.91% of tier one capital.

Net income for the third quarter of 2021 was \$1.1 million, a decrease of \$163,000 from the same period in 2020. However, for the first nine months of 2021, net income was \$3.1 million, in line with the same period in 2020. Net interest margin declined to 2.66% from 2.93% in the prior year, largely due to increases in funding outpacing increases in loans.

Non-interest income was \$1.4 million for third quarter 2021 compared to \$1.7 million for third quarter 2020. Gains from the sales of mortgages continues to decline when compared to the very active mortgage year 2020. Regardless, this decline continues to be offset by increasing trust income, debit card interchange income and security gains. Non-interest expense for the third quarter of 2021 exhibited a 3% increase from the same period in 2020 mainly attributed to employee compensation. Non-interest expense year to date contains expenses associated with litigation against our previous independent accountants. Expenses related to the aforementioned litigation will end in the coming weeks since we are now finalizing a settlement to end the dispute.


Your company remains well-capitalized with a tier one leverage capital ratio of 9.22%. Risk-based capital is even stronger, with tier one capital to risk-weighted assets at 16.63%, and total risk-based capital to risk-weighted assets at 17.64%. The decline in the leverage ratio is due to the growth in the bank with a significant amount of the funds being held in overnight funds or low risk investments.

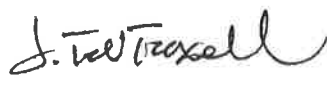
Budgeting is underway for 2022 as well as updating our 3-year financial strategic plan. Senior management remains excited about our opportunities to grow our revenue, introduce enhanced electronic banking solutions, and upgrade our core systems as well as concentrate on career development and bank wide succession planning.

Finally, we are very pleased to report that Michael DePorter joined us in September as Senior Vice President & Chief Financial Officer. Mike brings 30 years of accounting and finance experience, most recently serving as Controller & Chief Accounting Officer of Fulton Financial Corporation. Mike is a Bucknell University graduate and maintains a CPA designation. He is a welcome addition to our Executive Team and is already having a positive impact on your company.

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

Very truly yours,

  
J. Donald Steele, Jr.  
Chairman & CEO

  
J. Todd Troxell  
President & COO

**NORTHUMBERLAND BANCORP**  
**245 Front Street, Northumberland, PA**  
**For the Quarter Ending**  
**September 30, 2021 and 2020**  
**Amounts in thousands**

STATEMENT OF CONDITION (Unaudited)

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 14,760	\$ 7,020
Interest Bearing Balances with Banks	34,656	24,275
Investment Securities	248,297	167,657
Loans Held for Sale	2,287	2,401
Loans	367,297	364,250
Allowance for Loan Losses	(3,700)	(3,700)
Net Loans	<u>363,597</u>	<u>360,550</u>
Bank Premise and Equipment, Net	9,117	9,380
Accrued Interest Receivable	1,794	1,557
Other Assets	19,522	17,192
<b>TOTAL ASSETS</b>	<u>\$ 694,030</u>	<u>\$ 590,032</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Non-interest Bearing	\$ 150,018	\$ 118,016
Interest Bearing	469,345	406,877
Total Deposits	<u>619,363</u>	<u>524,893</u>
Short Term Borrowing	0	1,000
Long Term Borrowing	1,000	1,000
Subordinated Debt	10,000	0
Subordinated Debt - Unamortized Costs	(195)	0
Net Subordinated Debt	<u>9,805</u>	<u>0</u>
Accrued Interest Payable	73	110
Other Liabilities	2,044	2,095
<b>TOTAL LIABILITIES</b>	<u>632,285</u>	<u>529,098</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; 2021 - 190,642; 2020 - 174,642	(2,765)	(2,265)
Unrealized Gains (Loss) Available for Sale Securities	425	2,389
Comprehensive Income Adjustment	0	0
Minority Interest	0	(4)
Retained Earnings	<u>60,103</u>	<u>56,832</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>61,745</u>	<u>60,934</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 694,030</u>	<u>\$ 590,032</u>

**For the Quarter Ending  
September 30, 2021 and 2020**  
**Amounts in thousands, except per share data**

STATEMENT OF INCOME (Unaudited)	Quarter Ended		9 Months Ended	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<b>INTEREST INCOME</b>				
Interest and Fees on Loans				
Taxable	3,769	\$ 3,996	\$ 11,280	\$ 12,284
Tax Exempt	76	56	184	166
Interest on Investment Securities				
Taxable	499	405	1,448	1,228
Tax Exempt	199	190	596	539
Dividends	35	51	122	171
Interest on Interest Bearing Balances with Banks	8	6	21	31
<b>TOTAL INTEREST INCOME</b>	<u>4,586</u>	<u>4,704</u>	<u>13,651</u>	<u>14,419</u>
<b>INTEREST EXPENSE</b>				
Deposits	544	787	1,754	2,703
Other	4	5	12	40
<b>TOTAL INTEREST EXPENSE</b>	<u>548</u>	<u>792</u>	<u>1,766</u>	<u>2,743</u>
<b>NET INTEREST INCOME</b>	<u>4,038</u>	<u>3,912</u>	<u>11,885</u>	<u>11,676</u>
Loan Loss Provision	0	24	25	246
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISION</b>	<u>4,038</u>	<u>3,888</u>	<u>11,860</u>	<u>11,430</u>
<b>OTHER INCOME</b>				
Change in Fair Value of Equity Securities	10	(15)	16	(81)
Gain (Loss) on Sale of Securities	16	33	185	60
Service Charges on Deposit Accounts	90	64	221	205
Gain (Loss) on Loans Held for Sale	317	667	1,084	1,305
Other Noninterest Income	745	664	2,035	1,709
Trust Department Income	248	254	724	684
<b>TOTAL OTHER INCOME</b>	<u>1,426</u>	<u>1,667</u>	<u>4,265</u>	<u>3,882</u>
<b>OTHER EXPENSES</b>				
Salaries and Benefits	2,376	2,208	6,994	6,639
Occupancy Expenses	458	465	1,445	1,317
Other	1,343	1,380	4,102	3,778
<b>TOTAL OTHER EXPENSES</b>	<u>4,177</u>	<u>4,053</u>	<u>12,541</u>	<u>11,734</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>1,287</u>	<u>1,502</u>	<u>3,584</u>	<u>3,578</u>
Income Taxes	203	255	560	579
<b>NET INCOME</b>	<u>\$ 1,084</u>	<u>\$ 1,247</u>	<u>\$ 3,024</u>	<u>\$ 2,999</u>
Earnings per share	<u>\$ 0.83</u>	<u>\$ 0.94</u>	<u>\$ 2.30</u>	<u>\$ 2.26</u>
Weighted Average Shares Outstanding	1,311,858	1,327,858	1,315,550	1,327,858