

# Northumberland Bancorp

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September 15, 2022

Dear Shareholder:

Northumberland Bancorp (your Company), had a strong second quarter of 2022 and we reached historic levels in both loans and deposits, reflecting our continued commitment to our community and to grow your bank.

Short-term interest rates have continued to increase due to actions by the Federal Reserve Bank. These interest rate changes have impacted all banks. Your Company's financial performance has remained strong as we have actively managed the impacts.

Net income for the first six months of 2022 was \$972,000, as compared to \$1.9 million for the same period in 2021. The decrease was mainly due to a \$770,000 decrease in non-interest income and a \$225,000 increase in the provision for loan losses.

The lower non-interest income resulted mainly from lower gains on sales of residential mortgages. As interest rates have risen, volumes of both refinances and purchases have slowed. This is consistent with what the industry has seen but we will continue to focus on this core business as it is a key element of our community and the success of our customers.

As noted, your Company continued to grow its balance sheet during the second quarter of 2022. Total assets reached \$712.5 million at June 30, 2022, compared to \$661.5 million at June 30, 2021. Total loans, excluding those held for sale, were \$416.7 million at June 30, 2022, a 14.8% increase from June 30, 2021. While loans grew significantly, net interest income growth lagged at the same time due to a decline in the average weighted yield on the overall loan portfolio. However, with the rising rate environment, we are now seeing increases in this average weighted yield.

Asset quality remains strong. The Company experienced net recoveries during the first six months of 2022. Classified assets remain low, at 15.8% of Tier One Risk-Based Capital.

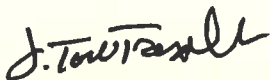
The Bank continues to be well-capitalized based on regulatory capital standards, with a Tier One Leverage capital ratio of 9.10% at June 30, 2022. The Bank's Risk-Based capital ratios also remain strong and well in excess of regulatory requirements. Tier One capital to risk-weighted assets was 15.0% and Total Risk-Based capital to risk-weighted assets was 15.9%.

We continue to focus on our core system conversion, which will occur in the summer of 2023. This conversion will provide an integrated platform to enhance the customer experience, including improved online and mobile banking services. It will also result in efficiencies for our employees as well, so we can continue to maximize our service to our community.

We aspire to be the first choice for financial services in our market. The future looks great!

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

Very truly yours,



J. Todd Troxell  
President and CEO



Michael J. DePorter  
Senior Vice President and CFO

**NORTHUMBERLAND BANCORP**  
**245 Front Street, Northumberland, PA**  
**June 30, 2022 and 2021**  
**(Dollars in thousands)**

Balance Sheets (Unaudited)

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 13,467	\$ 13,603
Interest Bearing Balances with Banks	8,249	22,705
Investment Securities	240,271	232,930
Loans Held for Sale	1,614	2,480
Loans	416,728	362,988
Allowance for Loan Losses	(3,736)	(3,699)
Net Loans	<u>412,992</u>	<u>359,289</u>
Bank Premise and Equipment, Net	8,861	9,204
Accrued Interest Receivable	1,894	1,719
Other Assets	25,136	19,560
<b>TOTAL ASSETS</b>	<u>\$ 712,484</u>	<u>\$ 661,490</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Non-interest Bearing	155,666	142,004
Interest Bearing	489,378	445,100
Total Deposits	<u>645,044</u>	<u>587,104</u>
Short Term Borrowing	-	-
Long Term Borrowing	8,000	1,000
Subordinated Debt	10,000	10,000
Subordinated Debt - Unamortized Costs	(180)	(200)
Net Subordinated Debt	<u>9,820</u>	<u>9,800</u>
Accrued Interest Payable	84	75
Other Liabilities	2,129	1,992
<b>TOTAL LIABILITIES</b>	<u>\$ 665,077</u>	<u>\$ 599,971</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; 2022 - 190,642; 2021 - 190,642	(2,765)	(2,765)
Unrealized (Losses) Gains Available for Sale Securities	(13,741)	981
Comprehensive Income Adjustment	-	-
Minority Interest	-	-
Unearned ESOP Shares	(1,458)	-
Retained Earnings	<u>61,389</u>	<u>59,321</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>47,407</u>	<u>61,519</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 712,484</u>	<u>\$ 661,490</u>

**For the Quarter Ending  
June 30, 2022 and 2021**  
Amounts in thousands, except per share data

STATEMENT OF INCOME (Unaudited)	Quarter Ended		6 Months Ended	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<b>INTEREST INCOME</b>				
Interest and Fees on Loans				
Taxable	3,875	3,706	7,528	7,511
Tax Exempt	98	56	196	108
 Interest on Investment Securities				
Taxable	592	495	1,123	955
Tax Exempt	201	199	406	392
Dividends	45	43	77	86
Interest on Interest Bearing Balances with Banks	16	8	22	13
<b>TOTAL INTEREST INCOME</b>	<b>\$ 4,827</b>	<b>\$ 4,507</b>	<b>9,353</b>	<b>9,065</b>
 <b>INTEREST EXPENSE</b>				
Deposits	544	549	1,059	1,209
Other	131	4	261	9
<b>TOTAL INTEREST EXPENSE</b>	<b>675</b>	<b>553</b>	<b>1,320</b>	<b>1,218</b>
<b>NET INTEREST INCOME</b>	<b>4,152</b>	<b>3,954</b>	<b>8,033</b>	<b>7,847</b>
Loan Loss Provision	-	-	250	25
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISION</b>	<b>\$ 4,152</b>	<b>\$ 3,954</b>	<b>7,783</b>	<b>7,822</b>
 <b>OTHER INCOME</b>				
Change in Fair Value of Equity Securities	(14)	(3)	(16)	7
Gain (Loss) on Sale of Securities	(6)	99	(3)	169
Service Charges on Deposit Accounts	96	67	182	131
Gain (Loss) on Loans Held for Sale	5	262	139	767
Other Noninterest Income	672	626	1,265	1,290
Trust Department Income	253	239	502	475
<b>TOTAL OTHER INCOME</b>	<b>\$ 1,006</b>	<b>\$ 1,290</b>	<b>2,069</b>	<b>2,839</b>
 <b>OTHER EXPENSES</b>				
Salaries and Benefits	2,524	2,268	5,159	4,619
Occupancy Expenses	459	485	953	987
Other	1,332	1,410	2,625	2,759
<b>TOTAL OTHER EXPENSES</b>	<b>\$ 4,315</b>	<b>\$ 4,163</b>	<b>8,737</b>	<b>8,365</b>
 <b>INCOME BEFORE INCOME TAXES</b>	 <b>843</b>	 <b>1,081</b>	 <b>1,115</b>	 <b>2,296</b>
Income Taxes	130	163	143	356
<b>NET INCOME</b>	<b>\$ 713</b>	<b>\$ 918</b>	<b>972</b>	<b>1,940</b>
 Earnings per share	 <b>\$ 0.54</b>	 <b>\$ 0.70</b>	 <b>0.74</b>	 <b>1.47</b>
 Weighted Average Shares Outstanding	 <b>1,311,858</b>	 <b>1,311,858</b>	 <b>1,311,858</b>	 <b>1,317,427</b>