

Northumberland Bancorp

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December 8, 2022

Dear Shareholder:

Greetings, your company continued to show strong growth in loans as well as growth in deposits when compared to the same 9-month period of 2021. Net loan balances stood at \$414 million compared to \$363 million at September end 2021. Current loan growth has seen a slow down due to the rising interest rate environment as the Federal Reserve Bank continues their fight against inflationary pressures.

Net income for the first nine months of 2022 was \$2.23 million as compared to \$3.02 million for the same period in 2021. As reported earlier, the decrease continues to mainly be due to a \$1.2 million decrease in non-interest income compared to year to date 2021 and a \$225,000 increase in the provision for loan losses earlier in the year. The lower non-interest income result continues to be driven by 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 has been seen across the community banking sector nationally not just in our market.

As noted, your company continued to grow its balance sheet in the area of loans, however, total assets remained relatively flat year over year as the increase in the interest rate environment is causing certain fixed rate investments of the company to be stated at lower market values while being held. These lower values must be reported as "unrealized losses" even though the asset was not sold for a loss and the intention is to hold it to maturity. These lower valuations continue through the balance sheet to Stockholder Equity causing a reported decline from \$61.7 million for this period in 2021 to \$41.3 million at September 30, 2022. This is another common theme to be seen on the balance sheet of all banks with certain fixed rate investments in this quickly rising interest rate environment.

General loan quality remains strong. Classified assets remain low, at 15.8417% 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 9.1897% at September 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 15.2905% and Total Risk-Based capital to risk-weighted assets was 16.1654%.

The Capital position we have and the foundation we have built in our almost 120-year history, provide an ideal situation to meet the possible cyclical economic challenges ahead. While we may not be able to expect tremendous growth in the short term, we are definitely in a place where we are confident in long-term sustainability to the next growth cycle.

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

Very truly yours,



J. Todd Troxell
President and CEO

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

Balance Sheets (Unaudited)

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and Due From Banks	\$ 13,194	\$ 14,760
Interest Bearing Balances with Banks	7,681	34,656
Investment Securities	221,358	248,297
Loans Held for Sale	1,116	2,287
Loans	418,061	367,297
Allowance for Loan Losses	(3,682)	(3,700)
Net Loans	<u>414,379</u>	<u>363,597</u>
Bank Premise and Equipment, Net	8,794	9,117
Accrued Interest Receivable	1,944	1,794
Other Assets	27,460	19,522
TOTAL ASSETS	\$ <u>695,926</u>	\$ <u>694,030</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest Bearing	155,357	150,018
Interest Bearing	484,692	469,345
Total Deposits	<u>640,049</u>	<u>619,363</u>
Short Term Borrowing	-	0
Long Term Borrowing	2,000	1,000
Subordinated Debt	10,000	10,000
Subordinated Debt - Unamortized Costs	(175)	(195)
Net Subordinated Debt	9,825	9,805
Accrued Interest Payable	73	73
Other Liabilities	2,614	2,044
TOTAL LIABILITIES	\$ <u>654,561</u>	\$ <u>632,285</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	(20,750)	425
Comprehensive Income Adjustment	-	-
Minority Interest	-	-
Unearned ESOP Shares	(1,458)	-
Retained Earnings	62,356	60,103
TOTAL STOCKHOLDERS' EQUITY	<u>41,365</u>	<u>61,745</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>695,926</u>	\$ <u>694,030</u>

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

STATEMENT OF INCOME (Unaudited)	9 Months Ended	
	<u>2022</u>	<u>2021</u>
INTEREST INCOME		
Interest and Fees on Loans		
Taxable	12,280	11,280
Tax Exempt	295	184
 Interest on Investment Securities		
Taxable	1,918	1,448
Tax Exempt	605	596
Dividends	116	122
Interest on Interest Bearing Balances with Banks	95	21
TOTAL INTEREST INCOME	\$ 15,309	13,651
 INTEREST EXPENSE		
Deposits	1,901	1,754
Other	417	12
TOTAL INTEREST EXPENSE	2,318	1,766
NET INTEREST INCOME	12,991	11,885
Loan Loss Provision	200	25
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	\$ 12,791	11,860
 OTHER INCOME		
Change in Fair Value of Equity Securities	(54)	16
Gain (Loss) on Sale of Securities	(35)	185
Service Charges on Deposit Accounts	278	221
Gain (Loss) on Loans Held for Sale	191	1,084
Other Noninterest Income	1,863	2,035
Trust Department Income	751	724
TOTAL OTHER INCOME	\$ 2,994	4,265
 OTHER EXPENSES		
Salaries and Benefits	7,750	6,995
Occupancy Expenses	1,426	1,445
Other	3,934	4,101
TOTAL OTHER EXPENSES	\$ 13,110	12,541
 INCOME BEFORE INCOME TAXES	 2,675	 3,584
Income Taxes	444	560
 NET INCOME	 \$ 2,231	 3,024
 Earnings per share	 \$ 1.70	 2.30
 Weighted Average Shares Outstanding	 1,311,858	 1,315,550