

Northumberland Bancorp

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August 16, 2021

Dear Shareholder:

During the second quarter of 2021, the Company's assets continued to grow as a result of high liquidity in the overall banking system largely resulting from stimulus payments and other factors impacted by the pandemic. In addition, as announced in an earlier communication, the Company sold \$10 million of subordinated debt to support various shareholder succession initiatives. We continue to see significant activity in the mortgage area due to the ongoing low interest rate environment. Although slightly lower than last year at this time, this resulted in strong gains on sales of mortgages in the secondary market historically speaking.

The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, reached \$661,490,000 as of June 30, 2021 compared to \$574,971,000 on June 30, 2020, an increase of 15.2%. Net loans, including loans held for sale, declined 1.5% over the past year to \$361,769,000 at June 30, 2021 compared to \$367,268,000 at the end of the second quarter of 2020.

Reported earnings for the quarter ended June 30, 2021 were \$918,000, a decrease of \$81,000 from the prior year. Net interest margin declined to 2.72% from 2.97% in the prior year. Factors causing this decline include 1) the overall impact of continued low interest rates, 2) a higher asset allocation to interest bearing balances with banks and investment securities and 3) lower yields on investment securities as principal pay downs have occurred with reinvestment at lower rates. Non-interest income was \$1.29 million at June 2021 compared to \$1.23 million through June of 2020. Gain from the sale of mortgages did decline from the same period last year, however, the decline was more than offset by trust income, debit card interchange income and security gains. Non-interest expense increased \$389,000 from the prior year. The increase was mainly due to the timing of our Educational Improvement Tax Credit donations between quarters, increases in employee compensation and expenses associated with litigation against our previous independent accountants.

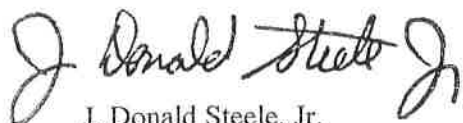
The Bank's asset quality remains strong. There were no loans charge-offs during quarter. The level of classified loans is low at 9.14% of tier one capital.

Your Bank remains well capitalized with a tier one leverage capital ratio of 9.38%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 16.85%, and total risk based capital to risk-weighted assets at 17.88%. 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.

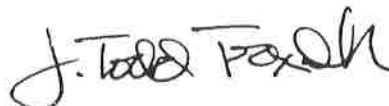
Strategic planning and budgeting is underway for 2022 and 2023. We are excited about our opportunities to grow our revenue, introduce more electronic banking solutions, and upgrade our systems. We will have more on these important initiatives in future quarterly reports

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

Very truly yours,



J. Donald Steele, Jr.
Chairman & CEO



J. Todd Troxell
President

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

STATEMENT OF CONDITION (Unaudited)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and Due From Banks	\$ 13,603	\$ 5,732
Interest Bearing Balances with Banks	22,705	22,579
Investment Securities	232,930	150,657
Loans Held for Sale	2,480	3,174
Loans	362,988	367,773
Allowance for Loan Losses	(3,699)	(3,679)
Net Loans	<u>359,289</u>	<u>364,094</u>
Bank Premise and Equipment, Net	9,204	9,449
Accrued Interest Receivable	1,719	1,342
Other Assets	19,560	17,944
TOTAL ASSETS	\$ <u>661,490</u>	\$ <u>574,971</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest Bearing	\$ 142,004	\$ 117,249
Interest Bearing	445,100	393,994
Total Deposits	<u>587,104</u>	<u>511,243</u>
Short Term Borrowing	0	1,000
Long Term Borrowing	1,000	1,000
Subordinated Debt	10,000	0
Subordinated Debt - Unamortized Costs	(200)	0
Net Subordinated Debt	9,800	0
Accrued Interest Payable	75	135
Other Liabilities	1,992	1,901
TOTAL LIABILITIES	<u>599,971</u>	<u>515,279</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	981	2,126
Comprehensive Income Adjustment	0	0
Minority Interest	0	(14)
Retained Earnings	59,321	55,863
TOTAL STOCKHOLDERS' EQUITY	<u>61,519</u>	<u>59,692</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 661,490	\$ 574,971

**For the Quarter Ending
June 30, 2021 and 2020**

Amounts in thousands, except per share data

STATEMENT OF INCOME (Unaudited)	Quarter Ended		6 Months Ended	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
INTEREST INCOME				
Interest and Fees on Loans				
Taxable	3,706	4,032	7,511	8,283
Tax Exempt	56	55	108	110
Interest on Investment Securities				
Taxable	495	385	955	823
Tax Exempt	199	178	392	350
Dividends	43	55	86	121
Interest on Interest Bearing Balances with Banks	8	5	13	25
TOTAL INTEREST INCOME	<u>4,507</u>	<u>4,710</u>	<u>9,065</u>	<u>9,712</u>
INTEREST EXPENSE				
Deposits	549	903	1,209	1,916
Other	4	14	9	34
TOTAL INTEREST EXPENSE	<u>553</u>	<u>917</u>	<u>1,218</u>	<u>1,950</u>
NET INTEREST INCOME	<u>3,954</u>	<u>3,793</u>	<u>7,847</u>	<u>7,762</u>
Loan Loss Provision	0	52	25	222
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	<u>3,954</u>	<u>3,741</u>	<u>7,822</u>	<u>7,540</u>
OTHER INCOME				
Change in Fair Value of Equity Securities	(3)	4	7	(65)
Gain (Loss) on Sale of Securities	99	24	169	27
Service Charges on Deposit Accounts	67	54	131	142
Gain (Loss) on Loans Held for Sale	262	428	767	638
Other Noninterest Income	626	515	1,290	1,043
Trust Department Income	239	201	475	430
TOTAL OTHER INCOME	<u>1,290</u>	<u>1,226</u>	<u>2,839</u>	<u>2,215</u>
OTHER EXPENSES				
Salaries and Benefits	2,268	2,156	4,619	4,430
Occupancy Expenses	485	426	987	852
Other	1,410	1,192	2,759	2,398
TOTAL OTHER EXPENSES	<u>4,163</u>	<u>3,774</u>	<u>8,365</u>	<u>7,680</u>
INCOME BEFORE INCOME TAXES	1,081	1,193	2,296	2,075
Income Taxes	163	194	356	323
NET INCOME	<u>\$ 918</u>	<u>\$ 999</u>	<u>\$ 1,940</u>	<u>\$ 1,752</u>
Earnings per share	<u>\$ 0.70</u>	<u>\$ 0.75</u>	<u>\$ 1.47</u>	<u>\$ 1.32</u>
Weighted Average Shares Outstanding	1,311,858	1,327,858	1,317,427	1,327,858