

Northumberland Bancorp

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May 23, 2023

Dear Shareholder:

Two themes drove the performance of our bank during the first quarter of 2023. First, overall loans continued to grow in spite of the ongoing tepid volume of mortgage banking activity. The second major theme was the impact of the rapid rise in interest rates by the Fed. As of this writing, the Federal Reserve has implemented 10 rate increases since early 2022. Dramatic interest rate increases like we have seen always result in short term challenges for banks to adjust to the new rates and therefore maintain historic profitability levels.

In addition to the two themes above, the quarter was impacted by a "Loss on Sale of Securities". This was the result by actions taken by management to ensure the bank has more than adequate liquidity while managing borrowing costs from the Fed or FHLB. During the quarter, approximately \$13 million in securities were sold to support liquidity that generated a realized loss of \$316,000. Further, if this same amount of funds were borrowed at the Fed or FHLB for a 12-month period at an average interest rate of 5%, that cost would have been over \$649,000. Alternatively, if these sales were not executed during the quarter, net income would have been approximately \$418,000 and earnings per share would have been approximately \$0.31. To be clear, our liquidity position is very strong and management does not see further need to sell securities and incur additional realized losses.

The assets of Northumberland Bancorp, parent company of The Northumberland National Bank, were \$695.5 million as of March 31, 2023, compared to \$702.4 million on March 31, 2022. Net loans, including loans held for sale, increased 6.3% over the past year to \$413.4 million at March 31, 2023 compared to \$388.6 million at the end of the first quarter of 2022. Although loans grew significantly and we are seeing an increase in the average weighted yield on loans, you do not see a significant growth in net interest income when comparing the two periods. This is due to the cost of funds (higher interest rates on deposits and borrowing activity) escalating at the same time.

The Bank's asset quality remains strong. Charge offs during the quarter were .0005% of average loans outstanding. The level of classified loans is low at 8.64% of tier one capital. The quarter ended with a low delinquency ratio of just 1.13%

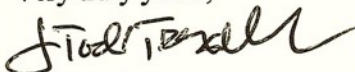
Your Bank remains well capitalized with a tier one leverage capital ratio of 9.35%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 15.62%, and total risk based capital to risk-weighted assets at 16.60%.

Work continues on the software conversion as well as migrating to a new service environment for Managed IT. The new core software will provide a better banking experience, especially within online and mobile banking which is obviously very important for our success in this ever advancing world of technology. We are scheduled to finalize the conversion and be utilizing the new systems in mid-July. Details are being communicated to the customer base to inform and prepare them as well.

I want to take this opportunity to welcome Doug Baxter as our Chief Financial Officer. Doug joined us in April and is already making a positive impact with his "hands on" style. You can learn more about Doug at www.norrybank.com.

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

Very truly yours,



J. Todd Troxell
President and CEO

For 3 Months Ended 3/31/23

March 31, 2023 and 2022

Amounts in Thousands, except per share data

STATEMENT OF INCOME (Unaudited)	3 Months Ended	
	<u>2023</u>	<u>2022</u>
INTEREST INCOME		
Interest and Fees on Loans		
Taxable	4,540	\$ 3,654
Tax Exempt	105	98
Interest on Investment Securities		
Taxable	1,074	529
Tax Exempt	153	206
Dividends	108	32
Interest on Interest Bearing Balances with Banks	74	6
TOTAL INTEREST INCOME	6,054	4,525
INTEREST EXPENSE		
Deposits	1,883	515
Other	275	130
TOTAL INTEREST EXPENSE	2,158	645
NET INTEREST INCOME	3,896	3,880
Loan Loss Provision	(56)	250
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	3,952	3,630
OTHER INCOME		
Change in Fair Value of Equity Securities	(21)	(2)
Gain (Loss) on Sale of Securities	(316)	3
Service Charges on Deposit Accounts	87	87
Gain (Loss) on Loans Held for Sale	51	134
Other Noninterest Income	596	594
Trust Department Income	268	249
TOTAL OTHER INCOME	665	1,065
OTHER EXPENSES		
Salaries and Benefits	2,671	2,636
Occupancy Expenses	554	495
Other	1,338	1,293
TOTAL OTHER EXPENSES	4,563	4,424
INCOME BEFORE INCOME TAXES	54	271
Income Taxes	(48)	12
NET INCOME	\$ 102	\$ 259
Earnings per share	\$ 0.08	\$ 0.20
Weighted Average Shares Outstanding	1,311,858	1,311,858

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
March 31, 2023 and 2022
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and Due From Banks	\$ 11,424	\$ 15,028
Interest Bearing Balances with Banks	23,095	13,990
Investment Securities	208,909	248,921
Loans Held for Sale	515	1,290
Loans	417,510	392,373
Allowance for Loan Losses	(4,081)	(3,735)
Net Loans	<u>413,429</u>	<u>388,638</u>
Bank Premise and Equipment, Net	8,829	8,960
Accrued Interest Receivable	2,144	1,870
Other Assets	27,173	23,670
TOTAL ASSETS	<u>\$ 695,518</u>	<u>\$ 702,367</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest Bearing	\$ 151,820	\$ 153,568
Interest Bearing	461,588	484,310
Total Deposits	<u>613,408</u>	<u>637,878</u>
Short Term Borrowing	0	0
Long Term Borrowing	22,000	0
Subordinated Debt	10,000	10,000
Subordinated Debt - Unamortized Costs	(165)	(185)
Net Subordinated Debt	<u>9,835</u>	<u>9,815</u>
Accrued Interest Payable	273	195
Other Liabilities	1,893	1,779
TOTAL LIABILITIES	<u>647,409</u>	<u>649,667</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; 2023 - 190,642; 2022 - 190,642	(2,765)	(2,765)
Unrealized Gains (Loss) Available for Sale Securities	(14,971)	(8,955)
Comprehensive Income Adjustment	0	0
Minority Interest	0	0
Unearned ESOP Shares	(837)	(558)
Retained Earnings	62,700	60,986
TOTAL STOCKHOLDERS' EQUITY	<u>48,109</u>	<u>52,690</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 695,518</u>	<u>\$ 702,357</u>