

# Northumberland Bancorp

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September 8, 2023

Dear Shareholders,

I am hoping that the summer has treated you well and that you made time to take a relaxing extended trip or vacation. Vacations can always be a great escape from reality. The recent actions of the Federal Open Market Committee have certainly created a new reality not seen in banking since the "Great Inflation" of the 1980s. Maybe they are trying to keep the phrase "history repeats itself" alive and well. The recent rapid rise in interest rates continues to squeeze the margin of net interest income, causes a higher cost of deposits and borrowing, has a negative impact on certain investment values and causes much lower levels of lending activity. Depositors have recently turned up the heat on their search for higher returns and rightfully so. This is the current community banking reality and certainly not a formula for increasing profits. We must remain very competitive and the name of the game at this time is giving up more margin to maintain those deposits and properly manage liquidity.

Here are a few mid-year financial highlights on a year over year June end basis as exhibited in the enclosed statement. Results for these time periods would be unaudited. Total assets stood at \$682 million compared to \$712 million at this period last year. The decline is largely attributed to the assessed market value of investments in this rising rate environment as well as the sale of a certain amount of investments to support a decline in deposits. Total loan levels remained stable and showed a slight increase year over year rising to \$418.6 million. Net Income exhibits a decline to \$564,000 compared to \$972,000 for the same period last year. This is mainly attributed to the compression of net interest income as well as the \$316,000 "loss on sale" of certain securities reported to you in the prior letter to shareholders. Again, the sale of those securities will prove to be a less expensive alternative to borrowing funds for liquidity but does take time for those savings to be realized.

Please know we will continue to meet the challenges that this higher interest rate environment has for us. For this bank, we not only have the industry-wide challenges mentioned above, we also have an unusual year for certain expenses related to our core software conversion. I am very pleased to report the conversion generally went very well. Our teams are busy exploring the new capabilities within the new system and making sure our customers are aware of the many features available to them as well. We will share more about the conversion in our annual report.

To summarize, your bank remains safe and sound with a strong capital base to weather times such as these. We remain well above all regulatory measures for a bank to be considered "well capitalized". Considering our strong capital position, historic retained earnings and looking forward to a more normalized expense structure, I am pleased to inform you that the current quarterly dividend payment will remain at the \$.23 per share level. We thank you for your continued support and investment.

Truly,



J. Todd Troxell  
President and CEO

**NORTHUMBERLAND BANCORP**  
**245 Front Street, Northumberland, PA**  
**June 30, 2023 and 2022**  
**(Dollars in thousands)**

Balance Sheets (Unaudited)

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 11,147	\$ 13,467
Interest Bearing Balances with Banks	10,882	8,249
Investment Securities	206,835	240,271
Loans Held for Sale	389	1,614
Loans	418,627	416,728
Allowance for Loan Losses	(4,061)	(3,736)
Net Loans	<u>414,566</u>	<u>412,992</u>
Bank Premise and Equipment, Net	8,764	8,861
Accrued Interest Receivable	2,115	1,894
Other Assets	27,350	25,136
<b>TOTAL ASSETS</b>	<u>\$ 682,048</u>	<u>\$ 712,484</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Non-interest Bearing	141,543	155,666
Interest Bearing	460,070	489,379
Total Deposits	<u>601,613</u>	<u>645,045</u>
Short Term Borrowing	-	-
Long Term Borrowing	22,000	8,000
Subordinated Debt	10,000	10,000
Subordinated Debt - Unamortized Costs	(160)	(180)
Net Subordinated Debt	<u>9,840</u>	<u>9,820</u>
Accrued Interest Payable	307	84
Other Liabilities	2,225	2,129
<b>TOTAL LIABILITIES</b>	<u>\$ 635,985</u>	<u>\$ 665,078</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; 2021 - 190,642	(2,765)	(2,765)
Unrealized (Losses) Gains Available for Sale Securities	(17,153)	(13,751)
Comprehensive Income Adjustment	-	-
Minority Interest	-	-
Unearned ESOP Shares	(837)	(1,458)
Retained Earnings	<u>62,836</u>	<u>61,398</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>46,063</u>	<u>47,406</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 682,048</u>	<u>\$ 712,484</u>

**For 6 Months Ended 6/30/23**  
**June 30, 2023 and 2022**  
**Amounts in Thousands, except per share data**

STATEMENT OF INCOME (Unaudited)	6 Months Ended	
	<u>2023</u>	<u>2022</u>
<b>INTEREST INCOME</b>		
Interest and Fees on Loans		
Taxable	9,258	\$ 7,528
Tax Exempt	211	196
Interest on Investment Securities		
Taxable	2,214	1,123
Tax Exempt	284	406
Dividends	195	77
Interest on Interest Bearing Balances with Banks	270	22
<b>TOTAL INTEREST INCOME</b>	<b>\$ 12,432</b>	<b>9,353</b>
<b>INTEREST EXPENSE</b>		
Deposits	3,864	1,059
Other	627	261
<b>TOTAL INTEREST EXPENSE</b>	<b>4,491</b>	<b>1,320</b>
<b>NET INTEREST INCOME</b>	<b>7,941</b>	<b>8,033</b>
Loan Loss Provision	(70)	250
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISION</b>	<b>\$ 8,011</b>	<b>7,783</b>
<b>OTHER INCOME</b>		
Change in Fair Value of Equity Securities	6	(16)
Gain (Loss) on Sale of Securities	(316)	(3)
Service Charges on Deposit Accounts	178	182
Gain (Loss) on Loans Held for Sale	81	139
Other Noninterest Income	1,205	1,265
Trust Department Income	557	502
<b>TOTAL OTHER INCOME</b>	<b>\$ 1,711</b>	<b>2,069</b>
<b>OTHER EXPENSES</b>		
Salaries and Benefits	5,277	5,159
Occupancy Expenses	1,116	953
Other	2,776	2,625
<b>TOTAL OTHER EXPENSES</b>	<b>\$ 9,169</b>	<b>8,737</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>553</b>	<b>1,115</b>
Income Taxes	(11)	143
<b>NET INCOME</b>	<b>\$ 564</b>	<b>\$ 972</b>
Earnings per share	<b>\$ 0.43</b>	<b>\$ 0.74</b>
Weighted Average Shares Outstanding	1,311,858	1,311,858