



## Norwood Financial Corp Announces First Quarter 2023 Earnings

April 21, 2023

HONESDALE, Pa., April 21, 2023 (GLOBE NEWSWIRE) -- James O. Donnelly, President and Chief Executive Officer of Norwood Financial Corp (Nasdaq Global Market – NWFL) and its subsidiary, Wayne Bank, announced net income of \$5,782,000 for the three months ended March 31, 2023, a decrease of \$1,346,000, from net income of \$7,128,000 for the three months ended March 31, 2022. The decrease was due primarily to a \$1,426,000 decrease in other income. Earnings per share on a fully diluted basis were \$0.71 for the three-month period ended March 31, 2023, compared to \$0.87 in the three-month period ended March 31, 2022. The annualized return on average assets was 1.13% in the first quarter of 2023 and the annualized return on average equity was 13.61%, compared to 1.39% and 14.22%, respectively, in the first quarter of 2022.

Total assets were \$2.104 billion as of March 31, 2023, an increase of \$26.7 million, compared to March 31, 2022. As of March 31, 2023, loans totaled \$1.536 billion, with deposits of \$1.756 billion and stockholders' equity of \$176.4 million.

Net interest income on a fully taxable equivalent basis (fte), was \$16,275,000 during the three months ended March 31, 2023, compared to \$16,283,000 in the comparable three-month period of 2022. During the three-months ended March 31, 2023, the fte yield on interest-earning assets increased 80 basis points compared to the three months ended March 31, 2022, while the cost of funds increased 119 basis points. As a result, the annualized net interest spread (fte) decreased to 2.83% from 3.22% in the quarter ended March 31, 2023 compared to the corresponding three-month period in 2022.

Total other income was \$1,912,000 for the three months ended March 31, 2023, compared to \$3,338,000 during the corresponding period of last year. The decrease in other income includes \$875,000 of income recognized in 2022 on previously acquired purchased impaired loans that were carried at a discount, and a \$427,000 gain recorded in 2022 on the sale of a property carried in foreclosed real estate owned. All other categories of other income decreased \$124,000, net.

Operating expenses totaled \$10,436,000 in the three months ended March 31, 2023, and were \$279,000, or 2.7%, higher than the \$10,157,000 recorded in the same three-month period of last year.

Additionally, effective January 1, 2023, the Company adopted Accounting Standards Update 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", referred to as the current expected credit loss model ("CECL"). This accounting standard requires that credit losses for financial assets and off-balance sheet credit exposures be measured based on expected credit losses, rather than on incurred credit losses as in prior periods. As a result of the adoption of CECL, the allowance for credit losses was increased by \$2,216,000, and retained earnings was decreased by \$1,751,000, net of tax. The Company also recorded an off-balance sheet reserve for unfunded commitments of \$329,000, with a corresponding decrease to retained earnings of \$260,000, net of tax.

Mr. Donnelly stated, "Our first quarter income decreased from the 2022 level due to one-time gains recognized in 2022 and the rising cost of deposits and borrowed funds. Loan growth was 16.7% annually during the quarter, while total deposits increased 6.6% annually during the first quarter of 2023. Our core operating expenses remain well-controlled, and our capital base remains above "Well-Capitalized" targets. Additionally, our credit quality metrics remained strong during the first quarter, which we believe should benefit future performance. We appreciate the opportunity to serve our Wayne Bank customers and our customers at the Bank of the Finger Lakes and Bank of Cooperstown locations. We continue to look for opportunities available to us as we service our growing base of stockholders and customers."

Norwood Financial Corp is the parent company of Wayne Bank, which operates from fourteen offices throughout Northeastern Pennsylvania and fifteen offices in Delaware, Sullivan, Ontario, Otsego and Yates Counties, New York. The Company's stock trades on the Nasdaq Global Market under the symbol "NWFL".

### Forward-Looking Statements.

The Private Securities Litigation Reform Act of 1995 contains safe harbor provisions regarding forward-looking statements. When used in this discussion, the words "believes", "anticipates", "contemplates", "expects", "bode", "future performance" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Those risks and uncertainties include changes in federal and state laws, changes in interest rates, the risks and uncertainty posed by, and the continued effect and impact of, the COVID-19 pandemic on the economy and the Company's results of operation and financial condition, our ability to maintain strong credit quality metrics, our ability to have future performance, our ability to control core operating expenses and costs, demand for real estate, government fiscal and trade policies, cybersecurity and general economic conditions. The Company undertakes no obligation to publicly release the results of any revisions to those forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

### Non-GAAP Financial Measures

This release references net interest income on a fully taxable-equivalent basis (fte), which is a non-GAAP (Generally Accepted Accounting Principles) financial measure. Fully taxable-equivalent net interest income was derived from GAAP interest income and net interest income using an assumed tax rate of 21%. We believe the presentation of net interest income on a fully taxable-equivalent basis ensures comparability of net interest income arising from both taxable and tax-exempt sources, and is consistent with industry practice.

The following table reconciles net interest income to net interest income on a fully taxable-equivalent basis:

(dollars in thousands)	Three months ended March 31,	
	2023	2022
Net interest income	\$ 16,093	\$ 16,101
Tax equivalent basis adjustment using 21% marginal tax rate	182	182
Net interest income on a fully taxable equivalent basis	<u>\$ 16,275</u>	<u>\$ 16,283</u>

This release also references average tangible equity, which is also a non-GAAP financial measure. Average tangible equity is calculated by deducting average goodwill and other intangible assets from average stockholders' equity. The Company believes that disclosure of tangible equity ratios enhances investor understanding of our financial position and improves the comparability of our financial data.

The following table reconciles average equity to average tangible equity:

(dollars in thousands)	Three months ended March 31,	
	2023	2022
Average equity	\$ 172,334	\$ 203,260
Average goodwill and other intangibles	(29,559)	(29,656)
Average tangible equity	<u>\$ 142,775</u>	<u>\$ 173,604</u>

Contact: William S. Lance  
Executive Vice President &  
Chief Financial Officer  
Norwood Financial Corp  
570-253-8505  
www.waynebank.com

**NORWOOD FINANCIAL CORP**  
**Consolidated Balance Sheets**  
(dollars in thousands, except share and per share data)  
(unaudited)

	March 31	
	2023	2022
<b>ASSETS</b>		
Cash and due from banks	\$ 25,701	\$ 22,394
Interest-bearing deposits with banks	3,314	143,632
Cash and cash equivalents	<u>29,015</u>	<u>166,026</u>
Securities available for sale	418,245	434,924
Loans receivable	1,535,643	1,371,645
Less: Allowance for credit losses	19,445	16,660
Net loans receivable	<u>1,516,198</u>	<u>1,354,985</u>
Regulatory stock, at cost	5,963	3,423
Bank premises and equipment, net	17,660	17,022
Bank owned life insurance	45,577	40,215

Foreclosed real estate owned	<b>346</b>	590
Accrued interest receivable	<b>6,633</b>	5,876
Deferred tax assets, net	<b>22,164</b>	14,771
Goodwill	<b>29,266</b>	29,266
Other intangible assets	<b>283</b>	380
Other assets	<b>13,013</b>	10,220
<b>TOTAL ASSETS</b>	<b><u>\$ 2,104,363</u></b>	<b><u>\$ 2,077,698</u></b>

#### LIABILITIES

Deposits:		
Non-interest bearing demand	<b>\$ 419,615</b>	\$ 438,979
Interest-bearing	<b>1,336,320</b>	1,342,798
Total deposits	<b>1,755,935</b>	1,781,777
Short-term borrowings	<b>108,555</b>	63,622
Other borrowings	<b>40,189</b>	26,844
Accrued interest payable	<b>4,703</b>	1,160
Other liabilities	<b>18,566</b>	17,489
<b>TOTAL LIABILITIES</b>	<b><u>1,927,948</u></b>	<b><u>1,890,892</u></b>

#### STOCKHOLDERS' EQUITY

Preferred Stock, no par value per share, authorized 5,000,000 shares	-	-
Common Stock, \$.10 par value per share, authorized: 20,000,000 shares, issued: 2023: 8,291,401 shares, 2022: 8,268,401 shares	<b>829</b>	827
Surplus	<b>95,052</b>	96,619
Retained earnings	<b>133,427</b>	114,845
Treasury stock, at cost: 2023: 110,400 shares, 2022: 65,089 shares	<b>(2,930)</b>	(1,760)
Accumulated other comprehensive loss	<b>(49,963)</b>	(23,725)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>176,415</u></b>	<b><u>186,806</u></b>

<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 2,104,363</u></b>	<b><u>\$ 2,077,698</u></b>
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#### NORWOOD FINANCIAL CORP

##### Consolidated Statements of Income

(dollars in thousands, except per share data)  
(unaudited)

	Three Months Ended March 31,	
	<u>2023</u>	<u>2022</u>
<b>INTEREST INCOME</b>		
Loans receivable, including fees	<b>\$ 19,158</b>	\$ 15,375
Securities	<b>2,505</b>	1,894
Other	<b>48</b>	78
<b>Total Interest income</b>	<b><u>21,711</u></b>	<b><u>17,347</u></b>
<b>INTEREST EXPENSE</b>		
Deposits	<b>4,362</b>	1,059
Short-term borrowings	<b>779</b>	48
Other borrowings	<b>477</b>	139

Total Interest expense	<u>5,618</u>	1,246
NET INTEREST INCOME	<b>16,093</b>	16,101
PROVISION FOR CREDIT LOSSES	<b>\$ 300</b>	300
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	<b>15,793</b>	15,801

#### OTHER INCOME

Service charges and fees	<b>1,313</b>	1,470
Income from fiduciary activities	<b>212</b>	202
Net realized gains on sales of securities	<b>2</b>	-
Gains on sales of loans, net	<b>-</b>	-
Gains on sales of foreclosed real estate owned	<b>-</b>	427
Earnings and proceeds on life insurance policies	<b>213</b>	176
Other	<b>172</b>	1,063
Total other income	<b>1,912</b>	3,338

#### OTHER EXPENSES

Salaries and employee benefits	<b>5,969</b>	5,431
Occupancy, furniture and equipment	<b>1,262</b>	1,307
Data processing and related operations	<b>768</b>	628
Taxes, other than income	<b>161</b>	294
Professional fees	<b>285</b>	575
FDIC Insurance assessment	<b>200</b>	183
Foreclosed real estate	<b>29</b>	53
Amortization of intangibles	<b>23</b>	27
Other	<b>1,739</b>	1,659
Total other expenses	<b>10,436</b>	10,157

INCOME BEFORE TAX	<b>7,269</b>	8,982
INCOME TAX EXPENSE	<b>1,487</b>	1,854
NET INCOME	<b>\$ 5,782</b>	<b>\$ 7,128</b>

Basic earnings per share	<b>\$ 0.71</b>	<b>\$ 0.87</b>
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Diluted earnings per share	<b>\$ 0.71</b>	<b>\$ 0.87</b>
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#### NORWOOD FINANCIAL CORP

##### Financial Highlights (Unaudited)

(dollars in thousands, except per share data)

#### For the Three Months Ended March 31

	<u>2023</u>	<u>2022</u>
Net interest income	<b>\$ 16,093</b>	\$ 16,101
Net income	<b>5,782</b>	7,128
Net interest spread (fully taxable equivalent)	<b>2.83%</b>	3.22%
Net interest margin (fully taxable equivalent)	<b>3.25%</b>	3.32%
Return on average assets	<b>1.13%</b>	1.39%
Return on average equity	<b>13.61%</b>	14.22%
Return on average tangible equity	<b>16.42%</b>	16.65%
Basic earnings per share	<b>\$ 0.71</b>	\$ 0.87
Diluted earnings per share	<b>\$ 0.71</b>	\$ 0.87

#### As of March 31

<u>2023</u>	<u>2022</u>
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Total assets	\$ 2,104,363	\$ 2,077,698
Total loans receivable	1,535,643	1,371,645
Allowance for credit losses	19,445	16,660
Total deposits	1,755,935	1,781,777
Stockholders' equity	176,415	186,806
Trust assets under management	187,345	190,144
Book value per share	\$ 21.92	\$ 22.99
Tangible book value per share	\$ 18.31	\$ 19.37
Equity to total assets	8.38%	8.99%
Allowance to total loans receivable	1.27%	1.21%
Nonperforming loans to total loans	0.07%	0.05%
Nonperforming assets to total assets	0.06%	0.06%

**NORWOOD FINANCIAL CORP**  
**Consolidated Balance Sheets (unaudited)**  
**(dollars in thousands)**

	March 31 2023	December 31 2022	September 30 2022	June 30 2022	March 31 2022
<b>ASSETS</b>					
Cash and due from banks	\$ 25,701	\$ 28,847	\$ 23,092	\$ 29,931	\$ 22,394
Interest-bearing deposits with banks	3,314	3,019	17,785	79,735	143,632
Cash and cash equivalents	29,015	31,866	40,877	109,666	166,026
Securities available for sale	418,245	418,927	427,287	440,877	434,924
Loans receivable	1,535,643	1,473,945	1,432,288	1,404,317	1,371,645
Less: Allowance for credit losses	19,445	16,999	16,931	17,017	16,660
Net loans receivable	1,516,198	1,456,946	1,415,357	1,387,300	1,354,985
Regulatory stock, at cost	5,963	5,418	2,220	2,396	3,423
Bank owned life insurance	45,577	43,364	43,169	43,167	40,215
Bank premises and equipment, net	17,660	17,924	17,427	17,032	17,022
Foreclosed real estate owned	346	346	346	346	590
Goodwill and other intangibles	29,549	29,572	29,595	29,619	29,646
Other assets	41,810	42,707	42,592	35,981	30,867
<b>TOTAL ASSETS</b>	<b>\$ 2,104,363</b>	<b>\$ 2,047,070</b>	<b>\$ 2,018,870</b>	<b>\$ 2,066,384</b>	<b>\$ 2,077,698</b>
<b>LIABILITIES</b>					
Deposits:					
Non-interest bearing demand	\$ 419,615	\$ 434,529	\$ 453,560	\$ 442,991	\$ 438,979
Interest-bearing deposits	1,336,320	1,293,198	1,315,236	1,356,839	1,342,798
Total deposits	1,755,935	1,727,727	1,768,796	1,799,830	1,781,777
Borrowings	148,744	133,215	71,754	74,839	90,466
Other liabilities	23,269	19,043	19,471	17,884	18,649
<b>TOTAL LIABILITIES</b>	<b>1,927,948</b>	<b>1,879,985</b>	<b>1,860,021</b>	<b>1,892,553</b>	<b>1,890,892</b>
STOCKHOLDERS' EQUITY	176,415	167,085	158,849	173,831	186,806
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,104,363</b>	<b>\$ 2,047,070</b>	<b>\$ 2,018,870</b>	<b>\$ 2,066,384</b>	<b>\$ 2,077,698</b>

**Consolidated Statements of Income (unaudited)**  
**(dollars in thousands, except per share data)**

Three months ended	March 31	December	September 30	June 30	March 31
	2023	31	2022	2022	2022
<b>INTEREST INCOME</b>					
Loans receivable, including fees	\$ 19,158	\$ 17,810	\$ 17,114	\$ 15,714	\$ 15,375
Securities	2,505	2,487	2,473	2,197	1,894
Other	48	98	245	182	78
Total interest income	<u>21,711</u>	<u>20,395</u>	<u>19,832</u>	<u>18,093</u>	<u>17,347</u>
<b>INTEREST EXPENSE</b>					
Deposits	4,362	2,772	1,557	1,083	1,059
Borrowings	1,256	391	105	116	187
Total interest expense	<u>5,618</u>	<u>3,163</u>	<u>1,662</u>	<u>1,199</u>	<u>1,246</u>
NET INTEREST INCOME	<u>16,093</u>	<u>17,232</u>	<u>18,170</u>	<u>16,894</u>	<u>16,101</u>
PROVISION FOR CREDIT LOSSES	300	300	-	300	300
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	<u>15,793</u>	<u>16,932</u>	<u>18,170</u>	<u>16,594</u>	<u>15,801</u>
<b>OTHER INCOME</b>					
Service charges and fees	1,313	1,370	1,346	1,475	1,470
Income from fiduciary activities	212	210	219	214	202
Net realized gains on sales of securities	2	3	-	-	-
Gains on sales of loans, net	-	1	1	-	-
Gains on sales of foreclosed real estate owned	-	-	-	-	427
Earnings and proceeds on life insurance policies	213	195	267	449	176
Other	172	147	345	351	1,063
Total other income	<u>1,912</u>	<u>1,926</u>	<u>2,178</u>	<u>2,489</u>	<u>3,338</u>
<b>OTHER EXPENSES</b>					
Salaries and employee benefits	5,969	5,246	5,553	5,840	5,431
Occupancy, furniture and equipment, net	1,262	1,263	1,191	1,206	1,307
Foreclosed real estate	29	7	4	10	53
FDIC insurance assessment	200	144	143	142	183
Other	2,976	3,615	3,248	3,274	3,183
Total other expenses	<u>10,436</u>	<u>10,275</u>	<u>10,139</u>	<u>10,472</u>	<u>10,157</u>
INCOME BEFORE TAX	7,269	8,583	10,209	8,611	8,982
INCOME TAX EXPENSE	1,487	1,443	2,100	1,756	1,854
NET INCOME	<u>\$ 5,782</u>	<u>\$ 7,140</u>	<u>\$ 8,109</u>	<u>\$ 6,855</u>	<u>\$ 7,128</u>
Basic earnings per share	<u>\$ 0.71</u>	<u>\$ 0.88</u>	<u>\$ 1.00</u>	<u>\$ 0.84</u>	<u>\$ 0.87</u>
Diluted earnings per share	<u>\$ 0.71</u>	<u>\$ 0.88</u>	<u>\$ 1.00</u>	<u>\$ 0.84</u>	<u>\$ 0.87</u>
Book Value per share	\$ 21.92	\$ 20.86	\$ 19.92	\$ 21.65	\$ 22.99
Tangible Book Value per share	18.31	17.24	16.29	18.02	19.37
Return on average assets (annualized)	1.13%	1.40%	1.57%	1.35%	1.39%
Return on average equity (annualized)	13.61%	17.40%	17.93%	15.19%	14.22%
Return on average tangible equity (annualized)	16.42%	21.27%	21.48%	18.16%	16.65%
Net interest spread (fte)	2.83%	3.30%	3.61%	3.40%	3.22%
Net interest margin (fte)	3.25%	3.55%	3.74%	3.49%	3.32%

Allowance for credit losses to total loans	1.27%	1.15%	1.18%	1.21%	1.21%
Net charge-offs to average loans (annualized)	0.08%	0.06%	0.02%	-0.02%	0.02%
Nonperforming loans to total loans	0.07%	0.08%	0.04%	0.04%	0.05%
Nonperforming assets to total assets	0.06%	0.07%	0.05%	0.05%	0.06%