FOR IMMEDIATE RELEASE

NORWOOD FINANCIAL CORP ANNOUNCES SECOND QUARTER EARNINGS

Honesdale, Pennsylvania - July 26, 2023

James O. Donnelly, President and Chief Executive Officer of Norwood Financial Corp (Nasdaq Global Market-NWFL) and its subsidiary, Wayne Bank, announced earnings for the three months ended June 30, 2023 of $6,503,000, which was $352,000 lower than the same three-month period of last year. The decrease includes a $1,252,000 decrease in net interest income, a $706,000 decrease in total other income, and a $466,000 increase in total other expense, which was partially offset by a $2,050,000 decrease in the provision for credit losses. Earnings per share (fully diluted) were $0.81 in the three months ended June 30, 2023, compared to $0.84 in the same period of last year. The annualized return on average assets for the three months ended June 30, 2023, was 1.23%, while the annualized return on average tangible equity was 17.66%. Net income for the six months ended June 30, 2023, was $12,285,000, which is $1,698,000 lower than the same six-month period of 2022, due to decreases in net interest income and total other income, and an increase in operating expenses, partially offset by a decrease in the provision for credit losses of $2,050,000. Earnings per share (fully diluted) for the six months ended June 30, 2023, were $1.51, compared to $1.71 for the six months ended June 30, 2022. The annualized return on average assets for the six months ended June 30, 2023 was 1.18%. The annualized return on average tangible equity for the six months ended June 30, 2023 was 17.06%.

Total assets as of June 30, 2023 were $2.142 billion, compared to $2.066 billion at June 30, 2022. At June 30, 2023, loans receivable were $1.578 billion, total deposits were $1.732 billion and stockholders' equity was $173.4 million.

For the three months ended June 30, 2023, net interest income, on a fully-taxable equivalent basis (fte), totaled $15,829,000, a decrease of $1,253,000 compared to the same period in 2022. A $122.5 million increase in average time deposits, combined with a 231 basis points increase in the cost of time deposits, contributed to the decreased net interest income. Borrowing costs also increased, offsetting a $5,143,000 increase in total interest income. Net interest margin (fte) for the three months ended June 30, 2023 was 3.09%, compared to 3.49% in the same period of 2022. The tax-equivalent yield on interest-earning assets increased 83 basis points to 4.57% during the three months ended June 30, 2023, compared to the same prior year period, while the cost of interest-bearing liabilities increased 167 basis points to 2.01%. Net interest income (fte) for the six months ended June 30, 2023 totaled $32,104,000, which was $1,261,000 lower than the same period in 2022, due primarily to a $10,767,000 increase in the cost of interest-bearing liabilities. The net interest margin (fte) was 3.17% for the six months ended June 30, 2023, as compared to 3.41% for the six months ended June 30, 2022. The decrease in the net interest margin (fte) was due to a 143 basis points increase in the cost of interest-bearing liabilities, which offset the 82 basis points increase in the yield on interest-earning assets.

Other income for the three months ended June 30, 2023, totaled $1,783,000, compared to $2,489,000 for the same period in 2022. The decrease is due primarily to a $220,000 decrease in earnings and proceeds on bank-owned life insurance policies, and a $212,000 loss on the sale of investment securities. For the six months ended June 30, 2023, other income totaled $3,695,000, compared to $5,828,000 for the six months ended June 30, 2022. The decrease includes the reduced earnings and proceeds on bank-owned life insurance, losses recognized on sales of securities, and income recognized in 2022 on previously acquired purchased impaired loans that were carried at a discount.

Other expenses totaled $10,938,000 for the three months ended June 30, 2023, an increase of $466,000, compared to the $10,472,000 for the same period of 2022. For the six months ended June 30, 2023, other expenses totaled $21,374,000, compared to $20,630,000 for the same period in 2022, due primarily to a $539,000 increase in salaries and employee benefits costs.

Mr. Donnelly stated, “Our second quarter income decreased from the 2022 level due to one-time gains recognized in 2022 and the rising cost of deposits and borrowed funds. These decreases were partially offset by a $2,050,000 reduction in our provision for credit losses as a result of our June 30, 2023 current expected credit losses (“CECL”) methodology, due to a reduce level of credit losses within the measurement period. Loan growth was 10.9% annually during the quarter, while total deposits decreased $27.2 million during the second quarter of 2023 due primarily to significant decreases in municipal account balances. 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 second 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:

	Three months ended June 30		Six months ended June 30	
(dollars in thousands)	2023	2022	2023	2022
Net Interest Income	$15,642	$16,894	$31,735	$32,995
Taxable equivalent basis adjustment using 21% marginal tax rate	187	188	369	370
Net interest income on a fully taxable equivalent basis	$15,829	$17,082	$32,104	$33,365

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:

	Three months ended June 30		Six months ended June 30	
(dollars in thousands)	2023	2022	2023	2022
Average equity	$186,111	$181,044	$180,952	$192,090
Average goodwill and other intangibles	(29,536)	(29,629)	(29,547)	(29,643)
Average tangible equity	$156,575	$151,415	$151,405	$162,447

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