



NEWS RELEASE

Ledyard Financial Group Reports Q2 2023 Earnings and Declares Quarterly Dividend

2023-07-28

HANOVER, N.H.--(BUSINESS WIRE)-- Ledyard Financial Group, Inc. (ticker symbol LFGP), the holding company for Ledyard National Bank, today announced financial results for Q2 2023 and declared a regular quarterly dividend.

Q2 2023 Highlights :

- Net income of \$719 thousand, down 52% from Q1 2023, and down 65% from Q2 2022.
- Regular quarterly dividend of \$0.21
- Net interest margin compression, higher provision expense, and one-time expenses associated with the CEO transition were key factors affecting Q2 performance.
- Continued balance sheet strength, with deposit growth of \$37 million and capital ratios remaining well in excess of regulatory well-capitalized minimums.
- Net interest margin of 2.48% (excluding the tax advantage of municipal investments) remains strong; average cost of interest-bearing deposits up 78 basis points from Q1 2023, to 2.17%.
- Advisory revenue of \$3.1 million and assets under management of \$1.82 billion, up 1.4% and 3.9% over Q1 levels, respectively.
- CEO transition completed, with Josephine Moran succeeding Kathy Underwood as CEO.

“Net income results for Q2 were driven by three key factors - narrowing net interest margin in response to higher market rates, an increase to reserves recorded in accordance with the new CECL standard, and one-time costs related to the CEO transition,” said Peter Sprudz, CFO. “However, with deposits growing, liquidity levels increasing, and capital plentiful, the balance sheet is solid and our quarterly dividend is unchanged.”

“We are focused on maintaining a strong and resilient balance sheet while driving growth and the customer experience as outlined in our multi-year strategic plan,” added Josephine Moran, CEO. “Our ability to grow both loans and deposits during Q2 is evidence of the early success of that long-term plan. We continue to work towards achieving our vision of making life better for our clients, our employees and the communities we serve.”

Q2 2023 Results

Net income for Q2 2023 was \$719 thousand (\$0.22 per share) compared to \$1.49 million in Q1 2023 (\$0.45 per share) and \$2.07 million (\$0.64 per share) for Q2 2022.

Q2 2023 net interest income was \$4.23 million, down \$642 thousand or 13.2% from Q1 2023, and down \$364 thousand or 7.9% from Q2 2022. Net interest margin narrowed in Q2, declining to 2.48% from 2.90% in Q1 2023 and 2.72% in the year-ago quarter. Worth noting is that the reported margin figures do not reflect the beneficial effect of the tax advantage provided by the bank’s \$192 million in municipal bond holdings.

Quarter over quarter, the cost of interest-bearing liabilities increased 78 basis points from 1.39% to 2.17%, while earning asset yields increased 11 basis points from 3.45% to 3.56% and the net contribution from free funds and hedging activities rose 26 basis points.

The increase in liability costs resulted primarily from a mix shift to time deposits from non-maturity deposits, as banks, businesses, and consumers all adjust to and absorb the 500 basis points of rate hikes experienced in the last 15 months. Preliminary industry survey data tracked by the Bank continue to suggest that the Bank’s deposit costs remain well below industry averages.

The Bank’s application of the new CECL rules for credit loss reserving resulted in a provision expense of \$233 thousand in Q2 2023, up from \$21 thousand in Q1 and none in the same quarter of 2022. Nearly 30% of the provision expense was driven by loan growth, with the remainder primarily attributable to the need to accommodate a worsening credit outlook in the CECL projection. Notably, most of the loan growth occurred late in the quarter, thereby providing nominal offsetting revenue in Q2.

Non-interest revenue for Q2 2023 amounted to \$3.55 million, or \$121 thousand more than in Q1 2023 and \$111 thousand less than in Q2 2022. Revenue from Ledyard Financial Advisors amounted to \$3.14 million for Q2 2023, up 1.4% from \$3.09 million in Q1 2023 and down 4.0% from \$3.27 million in Q2 2022.

- Assets Under Management (AUM) ended the quarter at \$1.82 billion, up 3.9% for the quarter and up 8.2% from \$1.68 billion a year ago.

- The Company continues to attract new client relationships and assets; AUM and related revenue has trended in concert with global market asset values.

Non-interest expense in Q2 2023 was \$7.06 million, compared to \$6.74 million in Q1 2023 and \$6.01 million in Q2 2022, representing an increase of \$323 thousand or 4.8% from Q1 2023 and an increase of \$1.05 million or 17.5% over Q2 2022. Quarter over quarter, approximately 20% of the increase reflects inflationary pressure, with the remainder attributable to higher investment in marketing and to non-recurring CEO transition costs. Approximately 25% of the increase over year-ago levels arises from inflationary pressures, with the remainder attributable to strategic investments in client-facing staff, elevated marketing spend, and non-recurring CEO transition costs.

The Company continues to benefit from its investments in Low Income Housing Tax Credits. In Q2, the tax credits earned from these investments exceeded the tax liability for the quarter, resulting in a GAAP tax benefit of \$228 thousand.

Total assets of the Company at June 30, 2023 were \$749.4 million, growing \$2.6 million or 0.3% during Q2 and \$15.6 million or 2.1% over the last year.

Loans at June 30, 2023 were \$371.8 million, up \$8.3 million or 2.3% over March 31, 2023, and up \$16.8 million or 4.7% when compared to June 30, 2022. Loan growth in the quarter was broad-based and includes \$4.0 million of purchased residential ARMs.

Established under the new CECL rule adopted by the Company on January 1, 2023, the Allowance for Credit losses (ACL) totaled \$3.1 million at June 30, 2023, compared to \$2.8 million at the end of Q1 2023, and \$7.5 million (in ALLL) at the end of Q2 2022. Reserves for loan losses amounted to 84 basis points of loan balances at June 30, 2023, as compared to 78 and 210 basis points at March 31, 2023 and June 30, 2022, respectively. The Bank experienced net recoveries in Q2 2023, and the ACL at 6/30/2023 provides 2.8x coverage of non-performing assets.

Deposit balances grew \$36.6 million or 7.0% in Q2, including an increase of \$32.4 million of deposits acquired through broker or listing service channels. In concert with the increase in deposits, collateralized borrowings were reduced during Q2, ending the period \$30.9 million lower than at the end of the prior quarter and increasing liquidity reserves by a similar amount.

The Company continues to focus on maintaining a robust liquidity profile, with a diverse deposit base (roughly 70/30 retail/commercial), a small proportion of uninsured deposits (estimated at 15%), and good borrower standing at the Federal Reserve and at the Federal Home Loan Bank of Boston. With extensive portfolios pledged at these institutions and the Q2 reduction in collateralized borrowings, the Bank had over \$270 million in readily accessible borrowing capacity as of June 30, 2023.

At June 30, 2023, shareholders' equity stood at \$55.9 million, up \$1.0 million from March 31, 2023 and up \$8.7 million from June 30, 2022. These amounts include the impact of changes in Accumulated Other Comprehensive Income (AOCI), which moved from an unrealized loss position of \$20.2 million at June 30, 2022 to an unrealized loss position of \$15.9 million at the end of Q1 2023 before improving to a smaller loss position of \$15.1 million at June 30, 2023. These movements track interest rate driven changes in the market value of Available-For-Sale securities and derivative contracts used for hedging purposes.

The Company's capital ratios are in excess of the amount required by applicable banking regulators to be considered well capitalized. Depending on the specific ratio considered, the Company has approximately \$30 million more than required for the well-capitalized designation. AOCI is excluded when calculating regulatory capital ratios.

At June 30, 2023, the Company's book value per share excluding AOCI stood at \$21.04 compared to \$21.15 on March 31, 2023 and \$20.07 on June 30, 2022.

Dividend Declaration

The Company is pleased to announce that a regular quarterly dividend of \$0.21 per share will be paid on September 8, 2023 to shareholders of record as of August 18, 2023.

On June 22, 2023 the Company announced it had completed an important milestone by graduating to the OTCQX[®] Best Market from the OTCQB[®] Venture market. Graduating to the OTCQX Best Market enables the Company to maximize the value of being a public company by providing transparent trading and easy access to company information for shareholders. To qualify for OTCQX, community banks must meet high financial standards, follow best practice corporate governance, and demonstrate compliance with applicable securities laws.

Ledyard Financial Group, Inc., headquartered in Hanover, New Hampshire, is the holding company for Ledyard National Bank, founded in 1991. Ledyard National Bank is a full-service community bank offering a broad range of banking, investment, and wealth management services. Ledyard Financial Group, Inc. shares can be bought and sold through the NASD sanctioned OTCQX Best Markets under the trading symbol LFGP. For additional information about the company, stock activity, or financial results please visit the Investor Relations section of bank's website (www.ledyard.bank), or contact the Company's Chief Financial Officer, Peteris J. Sprudz.

	<u>For the Three Months Ended</u>		
Income Statement (unaudited, \$000s)	6/30/2023	3/31/2023	6/30/2022

Net interest income before provision	4,234	4,876	4,598
Provision	232	21	-
Net interest income after provision	4,002	4,855	4,598
Ledyard Financial Advisors revenue	3,137	3,094	3,268
Other non-interest income	415	337	395
Total non-interest income	3,552	3,431	3,663
Non-interest expense	7,063	6,740	6,013
Pre-tax income	491	1,546	2,248
Tax expense (benefit)	(228)	54	175
Net income	\$719	\$1,492	\$2,073

Other Operating Metrics	For the Three Months Ended		
	6/30/2023	3/31/2023	6/30/2022
Earnings per common share, basic	\$0.22	\$0.45	\$0.64
Earnings per common share, diluted	\$0.22	\$0.45	\$0.63
Dividends per common share	\$0.21	\$0.21	\$0.21
Return on assets	0.37%	0.76%	1.08%
Return on equity	4.97%	10.32%	15.54%
Efficiency ratio	90.71%	81.14%	72.79%
Stock price - high	\$17.00	\$19.79	\$24.50
Stock price - low	\$13.75	\$16.10	\$20.25
Stock price - average	\$14.98	\$18.15	\$21.95

Balance Sheet (unaudited, \$000s)	6/30/2023	3/31/2023	6/30/2022
Investments & interest-bearing deposits	\$314,569	\$319,988	\$322,001
Gross loans	371,804	363,499	354,978
Allowance for credit loss	(3,111)	(2,848)	(7,467)
Net loans	368,693	360,651	347,511
Premises, equipment & other assets	66,088	66,143	64,241
Total assets	\$749,350	\$746,782	\$733,753
Core Deposits	529,222	525,013	566,438
Brokered & Institutional Deposits	32,368	-	8
Borrowings	108,815	139,686	93,408
Subordinated debt	18,000	18,000	18,000
Other liabilities	5,043	9,178	8,706
Total liabilities	693,448	691,877	686,560
Capital	72,656	72,432	69,083
Accumulated other comprehensive income	(15,110)	(15,883)	(20,242)
Treasury stock	(1,644)	(1,644)	(1,648)
Total shareholder's equity	55,902	54,905	47,193
Total liabilities and equity	\$749,350	\$746,782	\$733,753

Other Metrics (as of stated date)	6/30/2023	3/31/2023	6/30/2022
Book value per share (excluding AOCI)	\$21.04	\$21.15	\$20.07

Book value per share (including AOCI)	\$16.56	\$16.40	\$14.05
Leverage ratio	9.51%	9.42%	9.03%
Risk based capital ratio	19.79%	19.91%	19.82%
Allowance to total loans	0.84%	0.78%	2.10%
Texas ratio	1.28%	1.48%	2.95%
Allowance for loan losses to non-performing assets	280%	223%	291%
Assets under management (billions)	\$1,820	\$1,751	\$1,682
Shares of common stock issued	3,491,100	3,463,692	3,476,427
Treasury shares	115,998	115,998	116,258

Forward-Looking Statements: Statements concerning future performance, developments or events, expectations for growth and income forecasts, and any other guidance on future periods constitute forward-looking statements that are subject to a number of risks and uncertainties. Actual results may differ materially from stated expectations. Specific factors include, but are not limited to, loan production, competitive pressure in the banking industry, balance sheet management, net interest margin variations, the effect of changes in equity prices on assets under management, the ability to control costs and expenses, changes in the interest rate environment, financial policies of the United States government, and general economic conditions. The Company disclaims any obligation to update any such factors.

Note: Certain reclassifications have been made to the prior period information to conform to the current period presentation.

For further information:

Peteris J. Sprudz, CFO

(603) 640-2743

Peter.sprudz@ledyard.bank

Source: Ledyard Financial Group, Inc.