Norwood Financial (Q2 2026 Earnings)
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Corporate Speakers

- Mackenzie Jackson; Norwood Financial Corp; Corporate Secretary
- James Donnelly; Norwood Financial Corp; President and Chief Executive Officer
- John McCaffery; Norwood Financial Corp; Executive Vice President and Chief Financial Officer

Participants

- Matthew Breese; Stephens, Inc.; Analyst
- Daniel Cardenas; Brean Capital; Analyst

PRESENTATION

Operator^ Good day, and thank you for standing by. Welcome to the Norwood Financial Corp Second Quarter 2026 Earnings Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Mackenzie Jackson, Corporate Secretary.

Ma'am, please go ahead.

Mackenzie Jackson^ Thank you, Michelle. Good morning, everyone. And welcome to our second quarter 2026 earnings conference call.

With me today are Jim Donnelly, our President and CEO; and John McCaffery, our CFO.

The press release we issued earlier this morning, together with the presentation material that accompanies our remarks, are available on the Investor Relations section of our web page.

Comments made by any participant on today's call may include forward-looking statements. These statements are subject to various risks and uncertainties and other factors that are difficult to predict.

Actual results may differ materially from those expressed or implied. And we assume no obligation to update any forward-looking information.

Please refer to our most recent Form 10-K and other subsequent reports filed with the SEC for more information about risks related to forward-looking statements.

During our discussion, we may refer to certain non-GAAP financial measures. These measures are useful for analysts, investors and management to evaluate ongoing performance. A reconciliation of these measures to GAAP financial results is provided in our presentation.

I will now turn the call over to Jim.

James Donnelly^ Thank you, Mackenzie. And good morning, everyone.

I'm pleased to report that the entire Norwood team performed well in the second quarter, continuing our strong performance as we build momentum and deliver another quarter of improving financial results.

Net income was $26.8 million, an increase of 41% compared with last year, and another record for us as we continue to elevate our performance.

Organic growth plus Presence Bank's acquisition contributed to the increase. Net interest margin expanded to 3.9%, an increase of 47 basis points compared with last year.

Net income and earnings per share also increased, improving 48% and 25%, respectively, on an adjusted basis with higher adjusted returns on average assets and tangible equity.

By nearly every metric, it was a great quarter as we continue to benefit from our repositioned portfolio, favorable interest rate movement, strong team performance and the acquisition.

As we disclosed last month, June 18, one of our customers' loans totaling $22 million, filed Chapter 1 bankruptcy. We have been involved in the process, engaging in discussions with all parties to achieve an agreeable outcome.

Based on the process as it stands and the anticipated result, we have recorded a net charge-off of $700,000. I believe this is an acceptable outcome given the total exposure. The bankruptcy process is ongoing, and we are continuing to monitor its progress to understand the impact on us.

I am proud of the team that has been leading this process for us, ensuring that the outcome is in the best interest of the bank and our shareholders.

Next, I'd like to review our 2026 strategic priorities. This priority is to successfully complete the Presence Bank integration. I am pleased to report that we have completed all of our planned integration activities. The integration team has done a great job leading us through this process, going above and beyond to achieve these milestones in addition to their normal daily responsibilities. The experience we have gained from this integration will serve us well as we continue to explore and pursue acquisitions in the future.

We have combined our systems to drive common operating practices across the organization with the completion of our core integration. We have completed the rollout and convergence of our brand across all entities and branches.

While the integration is complete, we continue to engage in open conversations across all locations and functions to identify and adopt best-in-class practices and policies that will enable us to better serve our communities while improving our results.

I'm excited about this activity and looking forward to how the combined organizations will continue to drive operational excellence well beyond the integration, making us stronger together than we were before.

On the second strategic priority is to increase operating efficiency and elevate customer experience through AI.

I have previously shared how we are implementing the commercial credit system from Presence Bank broadly across our organization. The system uses embedded AI and machine learning to enhance the productivity of our talented credit officers by bringing automation, speed and quality to the process.

We anticipate the outcome of this system will be better reporting to provide our credit officers with helpful insights to make informed decisions. This is a great example of how we plan to implement AI tools to empower our employees to perform higher-value functions by automating activities where possible.

We have put together a 3-year plan for the rollout of AI in each department in the bank. We believe that this is a thoughtful and measured approach will allow our employees to fully engage AI agents to supplement their work and better serve our customers.

Our third objective is to strengthen our talent pool and deepen our leadership bench. This begins with our executive team and extends throughout the organization. Now that our team has expanded with the addition of the talented employees from Presence Bank, we are refocusing our initiatives to develop our workforce, investing in our people to empower them to serve our communities.

We have been working on our succession planning and employee development for more than three years. The newest announcement of change in our senior leadership team is an example of investing in a talented employee and planning for the retirement of a valued leader well before the event. This allows for a smooth transition.

One update I would like to share with you is the appointment of Steve Daniels as Chief Lending Officer. Steve has been a dedicated member of the team since joining us in 2011, holding various positions over that time including his most recent role as Chief Consumer Officer.

Steve is stepping into this role following the announced retirement of Vinny O'Bell. Vinny will retire this fall, providing an opportunity to work with Steve during the transition. Vinny is ending a successful 47-year career in banking including the last 10 years at Wayne Bank, where he's helped shape the commercial lending division into what it is today.

We wish Vinny all the best in his retirement, and look forward to seeing Steve and what he will achieve in this new role.

Steve's promotion gives us an opportunity to promote Deb Kennedy to the Director of Retail Banking. She currently oversees our Pennsylvania franchise and will now oversee all branches, both in New York and Pennsylvania.

These organizational changes are part of our succession planning and a great testament to the strong and deep leadership we have at Norwood.

Our fourth and final priority is to ensure that everything we do increases shareholder value. This is evident in our second quarter results. When combined with our first quarter results, we have delivered very strong results during the first half of 2026.

Year-to-date, net interest income has improved 39% and adjusted net income has improved 42%. Our average tangible equity increased by approximately 15%.

We have now earned back the shareholder dilution that occurred with the purchase of Presence Bancshares with this increase in tangible book value. This is two years ahead of estimates and is a testament to the earnings power of the combined organization, our smooth integration and our disciplined approach to M&A.

Our employees are performing well serving our customers and communities to enable them to achieve their financial goals. This has resulted in improved returns which creates value for our shareholders.

We are well positioned to continue the strong performance for the rest of 2026 and beyond.

I will now turn the call over to John to walk us through our second quarter results.

John McCaffery^ Thank you, Jim. And good morning, everyone. Building on Jim's comments, I'll focus on the financial results and key performance metrics for the quarter.

Second quarter represented an important milestone for Norwood as we begin to realize more of the earnings power from the Presence Bancshares acquisition while successfully completing our core system conversion and continuing to execute on our strategic priorities.

Most important, net income for the quarter was a record $9.3 million or $0.86 per diluted share compared to $6.2 million or $0.67 per diluted share in the same period last year.

Return on average assets improved to 1.28%. Our return on average tangible equity increased to approximately 15%.

The net interest margin expanded to 3.9%, up 47 basis points from a year ago and 22 basis points from the first quarter.

For modeling purposes, approximately $241,000 of interest income was nonrecurring, resulting from bond calls and the acceleration of a credit mark associated with a PCD loan acquired from Presence Bank. Excluding those items, our margin performance would still have shown a meaningful improvement on both a linked quarter and year-over-year basis.

Another important metric that Jim mentioned was that we are particularly pleased with is our tangible book value per share. At quarter end, tangible book value per share was $22.96, which is not only an increase from the first quarter, but also higher than the $22.90 level reported at December 31, immediately before the Presence Bank acquisition closed.

From an operating performance perspective, pre-provision net revenue reached $13.6 million, a 55% increase from the prior year quarter and more than doubled compared to the first quarter of 2026. The improvement reflects benefits of a larger balance sheet, stronger net interest income generation and continued operating leverage across the franchise.

Turning to credit quality. Jim spoke about the ongoing impact of the bankruptcy filing of one of our customers. This pushed our provision higher due to the $700,000 charge-off and the impact on quantitative factors in the CECL model. Our allowance for credit losses totaled $25.6 million at quarter end or approximately 1.13% of total loans.

On the balance sheet, total assets were approximately $2.9 billion at quarter end. Loans increased to $2.26 billion and deposits totaled approximately $2.51 billion.

Below the margin line, merger-related expenses were largely behind us. During the quarter, we recorded only about $53,000 of merger expenses compared to nearly $5 million in the first quarter. We also recognized a onetime BOLI restructuring fee of approximately $225,000 in the first quarter.

The second quarter did include some $75,000 in legal bills related to the loan workout I previously mentioned. Yes. There was a credit event. Yes. There was some modest nonrecurring income, but the bigger story is that we've already earned back the tangible book value dilution from the acquisition, and we are now creating incremental shareholder value.

Jim and I will now be happy to answer any questions you may have.

Operator, please provide instructions for asking your question.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question is going to come from the line of Matthew Breese with Stephens, Inc.

Matthew Breese^ I just wanted to start on the NIM. So up 22 basis points, John, you moved a little quick there.

How much of that was onetime? And how is that spread across bonds and loans? I'm sorry, your comments were just a little quick.

John McCaffery^ Sure. I'm sorry. Yes. There was $241,000 in nonrecurring which is about 3 or 4 basis points in the NIM for the quarter. There was about $170,000 in loans and $65,000 in bonds.

Matthew Breese^ Okay. Okay. So still -- I mean the guide was NIM up 3 to 5 basis points, so quite a bit higher than that. Maybe recalibrate for us near-term expectations.

And then I think last quarter, you talked about the pipeline, pipeline yields were in and around 7%. Maybe update us on that as well.

John McCaffery^ I would say pipeline yields are probably in the high to mid-6s. The pickup in NIM in Q2 was -- a lot of it was related to deposit costs. We were able to manage down money market costs, money market yields to a bit.

And CDs, we've been running specials on CDs over the last couple of years. And so we had kind of a wave event in Q2 where some of the specials matured, a lot of them rolled into additional other specials but not as at higher rate.

So again, most of the margin improvement away from the onetimers was in the deposit cost line. And you can see that in the NIM table.

Matthew Breese^ And we've been hearing from a lot of folks, especially in the Northeast Mid-Atlantic that competitive dynamics around deposits are starting to pick up. And for a lot of folks, this quarter might be the turning point in terms of seeing higher deposit costs.

Do you feel like that's the case for you? And maybe if you have it, what was spot deposits cost at the end of the quarter?

John McCaffery^ I don't -- I can get spot deposit costs for you.

But I would say that, yes, we do hear from the branches that it's -- so I guess for the month of June, spot deposit costs were about 2 basis points higher than the quarterly average.

But again, that's for the whole month. I don’t know. I couldn't tell you like at June 30, what they were right now. But we are hearing anecdotally that there is competition. We're getting a few more inbound calls on larger deposits to get special rates.

So I think going forward, I wouldn't expect us to repeat the same Q2 experience in CDs. So I think loans are maintaining given where the pipeline is.

We did have -- the production of loans in Q2 was good. We just had a few higher-than-expected payoffs happened during the quarter which is why the growth wasn't what we expected it to be.

But...

James Donnelly^ Yes. The other -- the good news on deposits that's in there is we've -- our DDAs continue to grow at a good rate.

So the number of accounts and the number of dollars in those which should help temper a little bit the higher cost money markets and CDs.

Matthew Breese^ Okay. And then last one for me, and I'll hop out. Maybe just talk about M&A from here, deal appetite. Your opening commentary suggests that you're open and willing. Hasn't been that many deals in our neck of the woods this year.

I'm curious if deal announcements mimic kind of conversations behind the scenes. How is that all going?

James Donnelly^ Yes. I mean we're still out meeting and talking to people. The urgency for some of those deals seems a little bit less. The banking environment is better.

So the pressure that people were feeling maybe a year ago. So a better regulatory environment, better earnings season, credit quality holding up maybe is taking away some of the urgency for people that are otherwise sellers.

But we're continuing our discipline of going out and talking and making sure people understand that we're a good acquirer. We're good to their employees. We're good for their shareholders, and it's a good opportunity to join a high-quality community bank.

Operator^ And our next question is going to come from the line of Daniel Cardenas with Brean Capital.

Daniel Cardenas^ A couple of quick questions here.

For nonperforming assets, what was the total dollar amount this quarter?

John McCaffery^ The total dollar amount was, I believe, around $23 million or $24 million at the end of the quarter.

James Donnelly^ So that one credit was the lion's share of it.

Daniel Cardenas^ So absent that one credit, we would have seen some pretty strong improvement on a sequential quarter basis.

John McCaffery^ Yes. I think something else got cleared up during the quarter.

I don't have the breakout in front of me right now.

James Donnelly^ Yes. It might be a little higher than that. Yes.

So it's -- loan quality, when you take that one out is still pretty good.

Daniel Cardenas^ Okay. Yes. It's kind of (inaudible) I just wanted to make sure.

And then kind of going back to the margin. So the 3.90% margin that you guys reported, there was roughly 4 basis points of nonrecurring.

What was your yield accretion this quarter? And how should we be thinking about that on a go-forward basis?

John McCaffery^ You mean from the purchase accounting?

Daniel Cardenas^ Yes, sir.

John McCaffery^ For the quarter, there was -- so above the line in loans. There was, I would say -- so probably $700,000 in loan accretion. And then -- yes. And then below the line, there's -- what is it, there's mostly CDI, which I would put it about $300,000 in CDI.

Daniel Cardenas^ Okay. And is that kind of a good run rate then for both those numbers on a go-forward basis?

John McCaffery^ So CDI, yes, we're kind of -- I think we're keeping that flat for the year.

On loans, yes, it's going to be about the same for the loans for the rest of -- on the next six months, I'd say.

Daniel Cardenas^ Okay. Perfect. Perfect. And then on the loan growth that we saw, including the...

John McCaffery^ Barring any other payoffs or whatever.

But – yes. Sorry. Go ahead, Dan.

Daniel Cardenas^ Got you. No worries. And then on the loan growth we saw this quarter, categorically, where is that coming from?

John McCaffery^ The loan growth was -- so was in commercial real estate and it was in indirect.

I mean seasonally, indirect is usually pretty busy this time of year. We had a little bit of -- we had a slight paydown in C&I. So it was, again, CRE and consumer.

Daniel Cardenas^ Okay. And what are competitive factors looking like on the lending side? I mean, it sounds like it's still kind of a bit of a fist fight on the deposit front, but what's -- what are competitive factors like on the lending front?

James Donnelly^ It's a competitive market. I mean in each one of the markets we serve, we have good competitors, but we can compete with anybody that's rational. So I think it's competitive but rational.

Daniel Cardenas^ Okay. Great. I'll step back.

James Donnelly^ Our pipe looks good still. We're probably losing the same percent of loans that we normally would lose to rate or terms.

So there's nothing that's showing that it's overheated anywhere from a competitor standpoint. So it's still looking pretty good.

Daniel Cardenas^ And most of the competition, is that coming from similar sized institutions or bigger guys?

James Donnelly^ Both. Mostly -- we run mostly in that community bank space, but some of the -- our larger competitors are active as well.

John McCaffery^ Just back to the nonaccrual, Dan, total nonaccrual at the end of the quarter was 22.5. It was an 18 was the total. So really, it's about flat from Q1.

Daniel Cardenas^ Okay.

John McCaffery^ As far as dollars go.

Daniel Cardenas^ All right, gentleman. It's okay. Perfect.

Operator^ Thank you. And I'm showing no further questions at this time.

I would like to hand the conference back over to Jim Donnelly for closing remarks.

James Donnelly^ Thank you once again for joining us this morning.

We continued our strong performance in the second quarter, further building momentum with strengthening our financial position. Organic growth plus the Presence Bank acquisition contributed to our success.

We are a stronger organization and well positioned to deliver a brighter future as we serve our communities, moving forward with disciplined execution to deliver improved financial results and lasting value for our shareholders.

I look forward to updating you on our progress as we go.

Have a great day. Thank you for joining us.

Operator^ This concludes today's conference call. Thank you for participating.

And you may now disconnect.

Everyone, have a great day.