Norwood Financial Corp (Q3 2026 Earnings)

October 27, 2026

Corporate Speakers

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

Participants

- Matthew Breese; Stephens; Analyst
- Daniel Cardenas; Brean Capital; Director and Research Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the Norwood Financial Corp Third 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 first speaker today, Mackenzie Jackson, Corporate Secretary.

Please go ahead.

Mackenzie Jackson^ Thank you, Marvin. Good morning, everyone. And welcome to our third 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 relating 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. Good morning, everyone.

We delivered another strong quarter with record net income and net interest income, a 4.01% net interest margin and continued improvement in operating leverage. These results demonstrate the earnings power of our expanded franchise following the Presence acquisition and importantly, the underlying trends in the business remain strong. The third quarter strong results are delivered by the entire Norwood team who continue to perform with discipline and excellence.

These strong results are delivered as we take great care of our customers, support our communities and make a superior workplace for our employees. Net interest income improved 37% over last year to $28 million, driven by strong performance plus the impact of Presence Bank acquisition. Net interest margin was 4.01%, up 38 basis points.

Importantly, our improved earnings are translating into strong net returns with an ROAA of 1.6% and a return on average tangible equity of approximately 18.5%.

I am pleased with our results and proud of the continued performance of our team as they focus on taking care of our customers, delivering great experiences and helping them achieve their financial goals.

I would like to provide an update on a customer bankruptcy we discussed during our second quarter call. Recall that we recorded a charge-off in the second quarter with that credit.

In the third quarter, one of the businesses held by this borrower were purchased by a new entity.

As a result, we received past due interest and related fees that we did not expect to collect, improving our results this quarter. John will share some of the details in a few minutes.

In addition, the loan purchase resolves a significant amount of our exposure to the borrower, derisking our balance sheet. This is a positive outcome for us and for our shareholders.

I am grateful for the work done by those involved to reach this point.

We continue to actively manage the remaining exposure with a focus on minimizing risk and maximizing recovery. Next, I would like to review our 2026 strategic priorities.

With the completion of the Presence Bank integration, we continue to explore ways to work smarter across all locations and functions.

As we do, we are identifying best-in-class practices and policies that will enable us to better serve our communities.

Our second strategic priority is to increase operating efficiency and elevate the customer experience using AI.

We're moving beyond experimentation with AI and embedding it into specific workflows.

We are now expanding the threw-year AI roadmap across additional departments.

Our third objective is to strengthen our talent pool and deepen our leadership bench.

As we continue to grow both organically and through M&A, it is important that we retain the culture that has contributed to our success. This ensures that our commitment to community involvement and customer service is durable.

I would like to highlight a few appointments and promotions from the quarter.

Stephanie Abraham has joined as Senior Vice President and Commercial Team Leader, responsible for leading and expanding our commercial lending team.

She'll be taking over in the Luzerne and Lackawanna to markets as Vinny O'Bell retires late in October. This key activity has deepened our presence in the communities we serve.

Also, we are -- our commercial lending team, I want to congratulate Kyle Liner and John Veleber on their promotion to commercial team leaders, where they are focused on serving business and commercial customers in their regions. Lastly, we have expanded the role of Joe Mahon, Executive Vice President and Market Executive, to include the Greater Scranton market in addition to the New York territories he currently overseas.

In this role, Joe will continue leading commercial lending and deposit growth initiatives while working closely with customers, businesses and community organizations through his expanded market area.

I'm excited about all of these appointments and look forward to their continued contribution to our success.

Our fourth and final priority is to ensure that everything we do is to increase shareholder value.

We are executing with discipline our clear growth strategy. This is built on organic growth, strategic M&A and strong execution. All are evident in our results this quarter.

We have grown organically, expanding our presence in established markets and serving our communities.

Our fee income strategy embedded in there.

One example of this growth has been achieved in our brokerage business. Earlier this year, we transitioned our brokerage and investment platforms to Cetera Wealth Services. This enabled us to enhance our wealth management offerings, improve our service capabilities for our customers and keep trusted relationships.

As a result, our brokerage business improved 41% over last year, driving growth in our non-interest income.

We also have grown through M&A through the successful integration of our most recent acquisition, Presence Bank.

On top of this growth, we are executing well with a diversified portfolio to minimize risk, disciplined underwriting culture to sustain high credit quality and financial discipline to manage the balance sheet exposures. The strong execution we demonstrated in our ability to navigate the borrower bankruptcy discussed earlier. All combined, we believe the strategy will enable us to create sustainable value.

We have now surpassed $3 billion in assets, but size alone is not our objective.

Our goal is to build a high-performing franchise that compounds earnings and tangible book value per share while generating attractive returns on shareholder capital.

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

John McCaffery^ Thank you, Jim. Good morning, everyone. Building on Jim's comments, I'll focus on the financial results and some key performance metrics for the quarter. The third quarter demonstrated the earnings power of our expanded franchise following the Presence Bancshares acquisition and the completion of our core system conversion.

We delivered record earnings while continuing to execute on our strategic priorities.

Net income for the quarter was $11.8 million or $1.08 per diluted share.

On an adjusted basis, this compares with net income of $8.9 million or $0.94 per diluted share in the third quarter of '25. Return on average assets was 1.60% and return on average tangible equity was 18.5%. Net interest margin expanded to 4.01%, up 38 basis points from a year ago and 11 basis points in the second quarter. The quarter did include a one-time benefit to interest income related to the resolution of the borrower bankruptcy discussed by Jim including the collection of past due interest and fees.

Even that benefit, the underlying margin trend remained positive, supported by disciplined balance sheet management and lower funding costs.

At quarter end, tangible book value per share was $22.35, down slightly from the second quarter due to a decline in other comprehensive income as rising interest rates depressed the market value of our available-for-sale portfolio. From an operating performance perspective, pre-provision net revenue reached $15.4 million, up 53% from $10 million in the prior year quarter and 13% from $13.6 million in the second quarter. The improvement reflects the benefit of a larger balance sheet, stronger net interest income generation and continued operating leverage across the franchise. Turning to credit quality.

The resolution Jim described reduced our exposure to the borrower and contributed to a significant improvement in nonperforming loans during the quarter. Provision for credit losses was $100,000 in the third quarter compared with $1.9 million in the second quarter which included the impact of the borrower bankruptcy.

Our allowance for credit losses totaled $25.1 million at quarter end or approximately 1.1% of total loans.

On the balance sheet, total assets were approximately $3 billion at quarter end. Loans increased to $2.29 billion and deposits totaled $2.51 billion.

Below the margin line, merger-related expenses is now essentially behind us.

We recorded no merger-related expenses in the third quarter compared with $53,000 in the second quarter and approximately $4.9 million in the first quarter. This cleaner expense base gives us a better view of the earnings capacity of the combined franchise. There were some unusual items during the quarter including the favorable resolution of a portion of the borrower exposure, but the broader story is the strength of the underlying franchise, record earnings, continued margin expansion, strong operating leverage and tangible book value of $22.35 per share.

We believe these trends position us well to continue building shareholder value.

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

Operator, please provide instructions for asking questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Matthew Breese of Stephens.

Matthew Breese^ John, Jim, how much of the $28 million in net income and the 11 basis points of NIM increase came from the bankruptcy settlement? And I'm curious how you guys feel about the 4Q '26 NIM and beyond now that we're in kind of a different kind of rate hiking cycle.

John McCaffery^ There was about $400,000 in the NIM related to that.

I mean there was -- we did some debt financing. There were some fees associated with that, and it also crossed over the quarter.

So -- and things were phasing, but that's where we're kind of putting a pin in $400,000 in that number for the quarter.

Our new loan volumes are going on at higher than the portfolio rates.

We have seen some of the fourth quarter -- sorry, some of the third quarter was some mix of some public funds coming in at a little bit lower rate, but also our retail CDs dropped throughout the quarter as well.

So that's showing some -- there is a little bit of room on the liability side, the funding side there.

So, I think we're in a good spot for the margin.

I wouldn't, again, expect a lot of expansion as we continue into this rate hike cycle, but the asset side seems to be holding up pretty well for us so far.

Matthew Breese^ Understood.

Okay. And then the remaining $7 million tied to this borrower, what's the status on those? Are they performing, nonperforming underlying collateral? Do you feel like there's much of any kind of loss content tied to those?

John McCaffery^ Well we put them on nonaccrual as soon as the bankruptcy was announced.

So, they're still on nonaccrual, and they're still in our numbers in nonaccrual numbers.

I want to see what they are.

James Donnelly^ Yes. They're both real estate secured and the loan to values on them are okay.

We think the workout will take a little bit longer because of that going through the process. The bankruptcy on the real estate side of that borrower is going to take a little longer than the operating businesses that I think they've already worked all the way through.

So, we'll probably wind up carrying these a little bit longer, but we don't foresee a large loss.

John McCaffery^ One of the loans we're a participant on, so really, it's the lead bank whose kind of taking the point on that. The other one we are the sole lender on.

Matthew Breese^ Got it.

Okay. Last one, and I'll hop back into the queue. Fee income was positive on a few different fronts this quarter.

Service charges took a big step up.

Wealth management was positive. Just curious how sustainable this level of fee income is as you look out?

James Donnelly^ It's been -- I think we've talked about it in the past, Matt.

It's been a strategy of ours for four years to increase our fee income as a percent of income. And a couple of years ago, one of our Board members left the Board to take over the brokerage side.

I talked about his -- the results he's been able to drive in his department. And the other areas including our debit revenue is up.

We were underperforming.

We were below the peer.

We're working our way toward the peer.

So, from what I can see in the fee income, I think it's sustainable and hopefully expandable.

Operator^ Our next question comes from the line of Daniel Cardenas of Brean Capital.

Daniel Cardenas^ Congrats on a good quarter. Just I want to get some thoughts here on the loan growth we saw this quarter. Maybe we can give a little bit of color as to what impact of any paydowns and payoffs had? And then if you could talk a little bit about how the pipeline looks coming into Q4.

James Donnelly^ Yes.

We did have more paydowns and payoffs than expected. And so that softened the loan growth number, but it was loan growth on its own was good. And our pipeline going into Q4 is strong.

John McCaffery^ Also in the quarter, I guess as we see loans come up for repricing, most of them are repricing upwards.

If we look at a week-to-week sheet of five or six loans that are repricing in the week, all but one of them are repricing up.

Some of them, people are just coming in for asking for rate relief on certain things.

But -- so for the most part, the underlying trajectory on the loan book is up.

Sometimes the payoffs come with prepayment fees sometimes.

So, there's a little bit of that in there, but we don't see that being sustainable as rates continue to rise.

Daniel Cardenas^ Okay. And then maybe some color on competitive factors, what are they looking like? I'm assuming they still remain intense, but would you kind of say competition still remains rational? Or are you beginning to see a little irrational activity beginning to pick up?

James Donnelly^ I think we see on competition is rational on both deposit and loan pricing.

On the larger deals, they may be more aggressive.

But I'd say, overall, we're able to be disciplined about our pricing and still grow.

Daniel Cardenas^ Okay. And then last question for me, and I'll step back just on M&A.

I mean with the transaction, it seems like pretty well digested now.

What are your thoughts on M&A? And what's the environment looking like at the moment?

James Donnelly^ Yes. The transaction went really well.

I think the leadership team that joined our leadership team really kind of made it, we culturally aligned. And so I think the merger from the personnel side has been good. And if you take care of your people, they take care of your customers and communities.

So, there's probably nits and gnats that we're still working on.

But I'd say, overall, it's pretty well digested, Dan. And future M&A, I'm an active visitor and talking with lots of banks. And the environment we're in is good for banking.

I think people are feeling pretty good about where they're at right now.

Stock prices are up, earnings are up, credit quality is good and the regulators are fair.

So, I don't see anybody rushing to sell but we are out having conversations if there are any that aligned like Presence Bank, we will be talking to them.

Daniel Cardenas^ And then maybe last question. Just how should we be thinking about your tax rate here on a go-forward basis?

John McCaffery^ So, the tax rate has been a little bit higher because of some of the nondeductible items in the merger charges going forward.

But I think in that 21.5% to 22% is probably a good place for us to be on tax rate.

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

I'll now turn it back to Jim Donnelly for closing remarks.

James Donnelly^ Thank you, Marvin. Thank you for joining us today. The third quarter demonstrated the increasing earnings power of our franchise.

We delivered record earnings, expanded our margin, improved operating leverage and significantly reduced the risk associated with the borrower exposure we discussed last quarter.

With the Presence Bank integration behind us, our focus is now firmly on execution, generating disciplined organic growth, improving efficiency, deploying technology, maintaining strong credit quality and producing attractive returns on shareholder capital.

We believe we have a significant opportunity ahead of us, and our objective is clear, continue increasing earnings and tangible book value per share and creating sustainable long-term value for our shareholders.

We look forward to updating you next quarter. Thank you for joining us.

Operator^ Thank you for your participation in today's conference. This concludes the program.

You may now disconnect.