

Norwood Financial Corp(Q3 2025 Earnings)

October 22, 2025

Corporate Speakers:

- Kristen Lancia; Norwood Financial Corp.; Vice President, Marketing Manager
- James Donnelly; Norwood Financial Corp.; President, Chief Executive Officer
- John McCaffery; Norwood Financial Corp.; Executive Vice President, Chief Financial Officer

Participants:

- Tyler Cacciatori; Stephens; Analyst
- Ross Haberman; RLH Investments; Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to the Norwood Financial's Third Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. (Operator Instructions). Please be advised that today's conference is being recorded.

I would now like to hand the conference over to Kristen Lancia, Vice President and Marketing Manager. Please go ahead.

Kristen Lancia^ Thank you, Tanya. Good morning, everyone. Welcome to our Q3, 2025 earnings conference call. With me today are Jim Donnelly, CEO; and John McCaffery, 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 webpage.

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 materials.

I will now turn the call over to Jim.

James Donnelly^ Thank you, Kristen. Good morning, everyone. Our team delivered strong results in the third quarter, and growing assets around \$100 million year-to-date while expanding our margins. This is the result of delivering good growth in loans and strong growth in deposits.

Our credit metrics remain strong while delivering this growth. Our yield also continues to benefit from the bond portfolio repositioning we did in the fourth quarter of 2024. Our fee income has also grown year-over-year as we focused on our wealth management, trust, and other fee income businesses.

It was a good quarter for us, and we entered the fourth quarter on solid footing and with good momentum. I am proud of the performance of the entire Norwood team as they remain focused on delivering the products and services that help our customers achieve their goals, truly living out our tagline, Every Day Better.

It is this embodiment of our mission within the high-performing culture that distinguishes us, that gives me belief that we are on our way to creating a bright future for us, our customers, and our shareholders.

Stepping back and looking at our year-to-date performance, it is clear that our results in the third quarter and throughout 2025 have benefited from our repositioning of our bond portfolio that was completed in December of 2024.

Recall that we successfully completed the capital raise through the issuance of common stock to help support our growth, improve our financial position through the repositioning of our available for sale securities portfolio and increase our earnings potential. And I am pleased to say that we achieved all of these objectives.

The increased earnings potential is evident in the improved ~~deals~~ yields we have generated in 2025. And with the stronger financial position, we have been able to better serve our customers across our footprint with loans that enable them to purchase homes or cars, and to start or expand their businesses.

Turning to another item, we have filed all regulatory applications necessary for approval of our merger with Presence Bank that was announced on July 7th. The applications of our filings are pending. I refer you to the Investor Relations Section of our website for more information.

During the third quarter, we completed the leadership transition in our Board of Directors, and we added two new Directors, strengthening the board by bringing on board new talent as we embark on the next phase of our growth.

This was a bittersweet transition for me and many of the employees of Wayne Bank as we said goodbye to our long-term colleague and friend, Lew Critelli. Lew is my predecessor and has served as Chairman of the board since 2022.

Lew has had a tremendous impact on the bank and me personally, as well as many employees over his 30 years of dedication to the company. It would be hard to overstate the impact that he has had on making us the company that we are today. His legacy will carry on, and he will be missed. On behalf of the rest of the board and the entire company, we wish Lew all the best in his retirement.

We now move forward with Dr. Andrew Forte leading the Board as Chairman and Kevin Lamont replacing him as Vice Chairman. These are two long-serving Directors, and the Board is in great hands under their leadership.

We also welcomed two new Directors to the board, Marissa Nacinovich and James Shook, both outstanding leaders within their respective fields, and even more importantly, shining examples of individuals with strong commitment to serving their community. I'm excited about the changes to our Board and have every confidence that they will be valuable advisors as we move forward.

While we have built strong financial position and operated well to deliver strong financial results, it is our employees that truly make us unique. They continue to live according to our tradition of community involvement, donating time and money to causes that make the places we live and call home better places to live and work. I am proud of all they do for our communities and thankful for their dedication and commitment.

In conclusion, we delivered good results as we also delivered on strategic initiatives that have given our team and our brand a lift. We rolled out our new brand this year. The eye-catching marketing materials are a small piece of what we have delivered with this rollout. We have worked over the last two years to improve our culture with our Every Day Better focus —~~better everyday focus.~~

We have united our three brands into one. Our customers are rating their Wayne Bank experiences with an average of 4.7 stars. Our employees have a new lift in their step as we recognize them for delivering on everyday better service. This is the secret sauce behind these good results.

I am proud of our team and their commitment to our customers, our communities, and each other, and in returning good results for our investors.

I will now turn the call over to our CFO, John McCaffery, to walk us through the results.

John McCaffery^ Thank you, Jim. Good morning, everyone. The third quarter results continued an improving trend that began with our balance sheet repositioning in December 2024. Our net interest margin increased by 20 basis points on a linked quarter basis and resulted in a \$1.4 million increase in net interest income versus the second quarter. This was due to asset yields increasing while at the same time liability costs decreasing.

Below the margin line, our quarterly results included \$568,000 in merger charges, and we have included adjusted return metrics in both the press release and the presentation to show our performance ratios without the impact of these expenses.

Additionally, our CISO model calculated a release of the allowance for credit losses this quarter, so we included pre-provisioned net revenue numbers as well. The ACL release of \$502,000 was mostly driven by several loans moving out of non-accrual status.

Our unadjusted pre-provisioned net revenue increased by 15% on a linked quarter basis and 19% adjusting for non-recurring merger charges. Non-interest income for the nine months and September 30th increased 9% over the same period last year, with growth coming from our wealth and trust activities as well as increased gains on loan sales.

Quarterly expenses were up 7.5% over the third quarter of 2024. Excluding merger charges, the increase was only 2.8%. Credit metrics continued to improve year-over-year as non-performing loans as a percent of total loans decreased, and our reserves to non-performing assets also increased.

The overall themes of the quarter were improving net interest margins and line of credit combined measured expense control. These themes have aligned to deliver a solid quarter and leave our company well-positioned for the future.

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^ Certainly. (Operator Instructions). And our first question will come from Tyler Cacciatori of Stephens. Your line is open, Tyler.

Tyler Cacciatori^ Good morning. This is Tyler on for Matt Breese.

James Donnelly^ Hey, Tyler. How are you doing? Good morning.

Tyler Cacciatori^ Can you just talk about the ability to further reduce deposit costs from here with another two rate cuts expected? And maybe some sense for the full cycle beta versus the hiking cycle?

John McCaffery^ Sure. So, one thing we have is we have, as you know, we have about \$400 million plus in municipal deposits. A lot of those are tied to market rates. So, they will come down with market rates kind of in a step-by-step basis.

We are very aggressive in moving other specialized rates down with the move in Fed rates. So, I would say that the beta on the way down is going to be somewhere in the neighborhood of 50%.

I think we still have room and we have been showing, if you look in the presentation, we have seen even before the Fed cut, we have seen our deposit costs coming down over time.

Tyler Cacciatori^ And then can you remind us how much is in munis and what is roughly the high water versus the low?

John McCaffery^ We're probably right now at the high watermark, so it goes for between, I think, 450 down to 400. But there is -- we have New York and Pennsylvania municipal deposits, so they will offset each other as far as the timing goes off when tax receipts come in.

And then even as the tax receipts come in, some of the other municipalities that receive the tax money, you get them as it kind of dribbles out slowly.

James Donnelly^ Yeah, and we also have some school districts that work on a slightly different cycle as well that are in that mix. So, the highs and lows are a little less dramatic than it might otherwise be.

Tyler Cacciatori^ Great, thank you. And then along those same lines, can you discuss your NIM outlook and where you think you start seeing some stability here?

John McCaffery^ You know, that's a tough one, Tyler, thanks. Our NIM outlook, I think, is still positive. We're still getting in, you know, our loan book is still pricing up. So, although that has been, as the longer part of the curve has come down, that's begun to level off a little bit.

So, you know, I think, you know, at 363 for this quarter, you know, I hope we can start reaching towards 4%, but I'm not sure where we go from there over the next few quarters.

Tyler Cacciatori^ Great, thank you. And if I could just squeeze one more in. The window here for M&A certainly feels a bit more open. Can you maybe just talk about where you stand from here and, or post-deal close and update us on when the updating deal close is expected to happen?

James Donnelly^ We are opportunistic on M&A, and we'll look for strategic opportunities to continue to see what's out there and how it would be a strategic alignment. Our current Presence Bank I commented in on earlier, we're waiting for regulatory approval and don't really have a date that we know that that will come through but looking at the overall environment and how other deals have proceeded, we feel pretty confident on, we believe that things will go smoothly.

John McCaffery^ If you look at the calendar, Tyler, you know, we don't see it. You know, it'd be very difficult for us to get it done in Q4. And then, you know, there are other obviously operational and accounting issues with closing in December.

So, at this point, you know, they haven't mailed their proxy out yet. We think that'll be happening soon. And when that happens, then we can start like, we can start the calendar counting and then that then on a parallel path is obviously the regulators who have been, you know, they've been asking questions, but they haven't given us any flags of yellow or red kind at this point. So...

Tyler Cacciatori^ That's helpful. That'll be it for me. I appreciate you taking my questions.

James Donnelly^ Thank you, Tyler.

Operator^ Thank you. (Operator Instructions). And our next question will be coming from Ross Haberman of RLH Investments. Your line is open.

Ross Haberman^ Good morning, gentlemen. Thank you for taking my call. I just have a quick question. Assuming we get another quarter point drop in the next month or so, could you tell us how accretive that will be to your margin or your spread? Thank you.

John McCaffery^ I mean, we have just a lot going on underneath -- you know, in the portfolio. So, just by itself, you know, without any comment on the change in the shape of the yield curve, out past a year, it would be accretive to us as far as dropping our cost of deposits. But I had -- can't put a dollar amount on it now or a basis point amount right now.

But depending on timing and where in the quarter it happens, you know, then we'll get into the first quarter when hopefully we'll be closing on a transaction and then there'll be a lot of noise then as well.

Ross Haberman^ And just one follow up question, if I may. Could you tell us where you're seeing the best loan growth and demand today? What category? And do you see that continuing into the fourth quarter or is everything happening in D.C. and the expectation of lower rates? Is that sort of mitigating loan growth?

James Donnelly^ Yeah, Ross. Good question. I our loan growth this year has pretty much been across the board in the different categories. So, we haven't it hasn't kept us into one category or another as being the major growth factor.

The only area I'd say that we may have grown -- shrunk a little bit in was our AG percent of our portfolio may have gone from about 9% to about 8% of our portfolio. And our CRE breakout remains well under where we're well within the regulatory guidelines and have lots of room there.

So, there is no one category driving it. So, our consumer lending has been good and strong and is performing well as is across our portfolio for the various types of commercial, including CNI.

Ross Haberman^ Okay, thank you for your help. Have a good week.

James Donnelly^ You too. Thank you, Ross.

Operator^ And I'm showing no further questions at this time. I would now like to turn the call back to Jim for closing remarks.

James Donnelly^ Thank you. Thank you all for joining us today. We're really pleased to be talking about and delivering the kinds of results that we have today. It's the employees working hard every day to take great care of our customers that are able to put these numbers up.

So, thank you for calling in today, and we appreciate it. And we look forward to talking to you really soon on our next quarterly release.

Operator^ And this concludes today's conference call. Thank you for participating. You may now disconnect.