Norwood Financial(Q1 2026)

April 27, 2026

Corporate Speakers:

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

Participants:

- Daniel Cardenas; Brean Capital; Analyst
- Matthew Breese; Stephens; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to Norwood Financial Corp. First Quarter 2026 Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded. I'd now like to hand the conference over to Mackenzie Jackson, Corporate Secretary. Please go ahead.

Mackenzie Jackson^ Thank you, [Liz]. Good morning everyone. And welcome to our First 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 materials. I will now turn the call over to Jim.

Jim Donnelly^ Thank you, Mackenzie. Good morning, everyone. We began 2026 with strong performance, extending the momentum we began to build last year. This is the first quarter that included results from the Presence Bank acquisition, increasing our assets, loan portfolio, geographic presence, and earnings power.

I am proud of our team's ability to focus on our mission to make every day better by serving our customers and communities, while making significant progress on our integration activities.

Net interest income was a record $24,600,000, an increase of 38% compared with the first quarter of 2025. Net interest income margin expanded by 38 basis points to 3.68%. It was a great quarter for the bank as we benefited from our repositioned bond portfolio and favorable interest rate movement.

Net income and earnings per share increase improved 35% and 14%, respectively, on an adjusted basis with higher adjusted returns on average assets and tangible equity. I am pleased with our first quarter performance and remain optimistic that 2026 will be a great year for the bank.

During our fourth quarter earnings call I introduced our 2026 strategic priorities. I would like to provide you with an update on these. The first priority is to successfully complete the Presence Bank integration. I am pleased to report that we are on plan with these activities.

Our plans include driving uniform systems and operating practices across the new combined entity, uniting the acquired businesses and branches under our new brand and engaging in open conversations across our locations and functions to identify and adopt the best-in-class policies that will enable us to better serve our communities while improving our results. Among our early accomplishments is the completion of our core integration, unifying our IT and HR systems.

We have also begun the work of unifying all acquired locations under our brand including signage logos and other branded materials to drive consistency and unity across our organization. The integration requires a lot of planning, organization and executing across sites and functions to complete.

While we have been actively integrating the systems, we have not taken our eye off serving our customers and communities which have resulted in impressive loan and deposit growth during the same period.

I am proud of our team for going above and beyond to ensure our integration plans have been -- are being accomplished and for taking great care of our customers while doing so.

Our second strategic priority is to increase operating efficiency and elevate the customer experience through AI. This is an area where you're implementing best practices from Presence Bank and deploying their developed systems and processes across the combined organization.

One item I am really excited about is the commercial credit system which we will integrate in July. This uses embedded AI and machine learning to enhance the

productivity of our talented credit officers by bringing automation, speed and quality to the process.

For example, automatic spreading will allow our credit analysts to save time better reporting will provide our credit officers with helpful insights to make informed decisions and the ability to draft credit memos will be -- will improve the speed and quality of the documentation process.

These benefits will enable our employees to perform higher-value functions as well as underwriting deals more quickly to improve deal flow. Our third objective is to strengthen the talent pool and deepen our leadership bench.

As I've met with our employees across the sites including the newly added sites in Chester, Lancaster and [Dolphin] Counties, I am continually reminded of the great team we have, and I firmly believe our key to success is our people.

They are dedicated to serving the communities and working hard to find the ways to make every day better. The team became bigger and stronger during the quarter as we welcomed the former Presence Bank employees to our organization including additions to our executive leadership team.

I'm confident that together, we can continue to deliver financial solutions that improve the lives of our customers, allowing them to achieve their financial goals.

Our fourth and final priority is to ensure everything we do increases shareholder value. The results we reported today demonstrate how we have accomplished this during the quarter, accumulation of our performance in Q1 and actions taken in previous periods including the portfolio rebalancing we completed in 2024. The first three priorities I have reviewed position us to create even more value in future periods.

One shining example of how we are creating value for shareholders is through our recent acquisition. Not only did the transition bring immediate and meaningful growth to our bank, but we are also realizing the strategic and financial benefits of our acquisition more quickly than planned.

One demonstration of this is that we now expect accretion to shareholder value ahead of our original projections.

As a result of the quality of the Presence Bank team and assets plus interest rates that have moved in our favor, we anticipate the tangible book value payback to occur more quickly than planned.

After only one quarter since we closed the acquisition, it is obvious that we acquired a solid business with high-quality credit metrics and an excellent team including several talented executives that have joined the Wayne Bank team, demonstrating their

confidence in our joint future. The strong strategic fit and cultural alignment is contributing to our early success.

I'm encouraged by our initial progress and even more optimistic about our future and ability to generate meaningful and lasting shareholder value. I will now turn the call over to John to walk us through the results.

John McCaffery^ Thank you, Jim. Good morning, everyone. In the first quarter, we delivered improved financial results on an adjusted basis, continuing to benefit from our repositioned balance sheet and the outstanding performance of the entire Norwood team. It was a great start to the year, continuing the momentum from 2025.

We achieved record net interest income increasing $3.6 million on a linked quarter basis due to higher interest-earning assets. Margin improved 8 basis points due to a slight decline in deposit costs, coupled with a 7 basis point increase in interest-earning asset yields. Below the margin line, our quarterly results do continue to include merger charges.

We had about $5 million in merger charges in the quarter. We provided adjusted returns in the press release to show you performance ratios, excluding these expenses. We're also providing pre-provisioned net revenue across the entire span of the press release.

The provision was higher in Q1 versus the fourth quarter of 2025, [sort of] the increase was the result of annual updating and historical factors in the model as well as the integration of the Presence Bank portfolio.

Our coverage ratio stands at 1.09% compared to 1.07% at year-end. I will also note that we elected to adopt early [ASU-202508] and therefore did not experience a CECL double count on the acquired non-PCD loans.

Adjusted pre-provision net revenue was up about 11% on a linked-quarter basis, mostly due to the improved margin on a larger balance sheet, offset by higher expenses. Noninterest income increased compared to the same period last year. This was due to higher service charges and debit card income.

Quarterly expenses were up as a percent of average assets compared to Q4 2025. Most of this increase is in technology related. This is as we are investing in new systems that will ultimately drive efficiency in the future.

On that note, I would like to give a shout out to the finance team who implemented a new accounting system while executing a merger and a core conversion. The first quarter was a transition period as we integrated the acquisition with GAAP results impacted by [related] expenses.

On an adjusted basis, we achieved strong growth in net interest income, partially offset by higher expenses. To expand on Jim's point earlier, growth since January 5th, loans

grew approximately $46 million or 8.4% annualized and deposits grew about $70 million or $11.6 million on an annualized basis.

Overall, we are pleased with our performance and believe that our sound balance sheet management and credit metrics position us well 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^ (Operator Instructions) Our first question comes from Daniel Cardenas with Brean Capital.

Daniel Cardenas^ So a couple of questions. On the operating expense number that came in this quarter, how much -- you said part of that was tech related. How much was that? And then are all of the tech-related investments, have those been made and I'm just trying to get a sense for what's a good run rate on the operating expenses going forward?

John McCaffery^ So the tech increase in tech expenses were mostly due to -- well again, we are increasing investments, as Jim mentioned in the [Abrigo] system and our new accounting system.

So their ongoing expenses. We tried to exclude all of the conversion and other charges that were onetimers in Q1. So I think for OpEx going forward, the level that we're at is probably a pretty good run rate.

Daniel Cardenas^ So kind of a 6.1 per quarter is kind of where you think things will kind of shake out here?

John McCaffery^ Yes. I'd like to see them come down a little bit. Again, we're trying to pull apart how much actually was related to activity during the quarter because of the merger, but I do think we'll get efficiencies, but I wouldn't drop it more than below [15 to 8] I think, for the quarter.

Daniel Cardenas^ All right. Good. And then on the margin, the [3.68] margin, I probably missed it in the press release, but what was the contribution from yield accretion in the quarter?

John McCaffery^ Yield accretion in the quarter was -- I think actually it was, the total pretax impact of purchase accounting was [4.35]. That's substantially margin-related. There's some for the leases, but -- that's kind of a minimal amount.

Daniel Cardenas^ So probably about 6 basis points this quarter. And what kind of impact do you think yield accretion is going to contribute on a go forward basis?

John McCaffery^ So on a go forward basis for the full year of 2026, (inaudible) the schedule is about $2.2 million for 2026 dropping to about $2 million for 2027 in total market accretion -- in 2027 $2 million.

Daniel Cardenas^ $2million '27 got you, okay. And then one more question and I'll step back and let others ask. But the one performing number for the quarter roughly 11 million if we're calculating that correctly. Was that -- was that all attributable to the acquisition or was there other issues going on in the portfolio?

John McCaffery^ Not (inaudible) not performing from Presence. So that was mostly us. I'm not aware of any non performance that came in.

Daniel Cardenas^ It looked pretty granular [increase]. Was that mostly on the commercial side or a maybe a little bit of color as to what was making up the linked quarter increase.

John McCaffery^ Largely -- it's largely on the commercial side. There's very little -- the indirect and consumer portfolios were about the same that they were in the quarter before. We had a little dip in the last quarter on the commercial side and it came back up to about where we were the previous quarter again. So it's -- I think we leveled off at that amount.

Daniel Cardenas^ Okay, I'll step back from it thank you.

Operator^ Our next question comes from Matthew Breese with Stephens.

Matthew Breese^ I was wondering if you could maybe touch on the component to the margin. First maybe more broadly, would love just some color on competitive conditions around deposits.

I think in the northeast we started to hear inklings of maybe some high 3% and low 4% promotional rates. Wanted to hear if you're dealing with that and maybe what your thoughts around deposit cost outlook is now that it doesn't seem like we're getting much of any rate cuts?

John McCaffery^ Through the -- even into, I guess, Q1 we were continuing to lower deposit costs based upon a December rate cut. I -- we are not talking about raising our any of our specials on CDs at all. I don't know whether the new market's about to get a little more competitive than what we're used to up here in northeast Pennsylvania but were not seeing competitive pressure in our markets on the cost of pricing yet, I guess.

Jim Donnelly^ Yes, Matt, we see some spotty stuff on -- if you dig into wanting to do it, there are people with very high loan and deposit ratios or just interesting business strategies sometimes. But we see that we're competitive with our current rates, and we're not seeing seen a lot of upward pressure. I'm still seeing some competitors bringing their rates down.

Matthew Breese^ Got it. Okay. How much more room do you think there is to squeeze deposit costs lower than? If I look at your CD costs this quarter in knocking on 3.6%. Is the blended rate of maturities still in kind of that 3.30% range with some downside?

John McCaffery^ Yes. It's -- most of that is just really churning our -- the special we've had out there. So -- and there is a push on to, again, try to get our CD number to be down below 40% of total deposits. So we hope that, that will give us some more levers to push on going forward.

But I think it's going to be, like you said, we had like a pretty -- just a couple of basis point drop in some of the deposit categories, just 1 basis point overall, but I want to try to get a better feel for the full portfolio now that they've got -- now that we have the deposits in one system, it's going to be easier for me to kind of look at where we are from a go-forward basis which we completed the core conversion on April 5th. So get -- trying to get that kind of data is on the come.

Jim Donnelly^ I think there's -- we're not seeing downward pressure on the lending rates to the level that you might be seeing in the Northeast as well. And -- but I think our ability to squeeze out of the deposits will be smaller than it had been. It's there, but it will be at a smaller amount.

Matthew Breese^ And then maybe on the lending side, same question around competitive conditions and would love to hear kind of what -- excuse me, what new origination yields are on the pipeline right now? And how does the pipeline look?

Jim Donnelly^ Pipeline very healthy and has been. So when we look ahead, $30 million, $60 million, $90 million we're ahead of our general pipeline. Quality is very good and pricing is in line with our expectations, where the closings that we just had averaged 7.05 for the last $18.5 million we booked.

John McCaffery^ Yes. I'm still seeing, I guess, most -- almost all the rates that are coming across are still higher than what the portfolio yield is. So we think there's still room there for some expansion.

Matthew Breese^ Okay, so it sounds like deposit costs are flat to down a little bit. There's still upward -- up for good pricing on the loan side. So maybe John help me out with the margin, how you feel like it's going to shake out as we progress through the year?

John McCaffery^ Well I think we still have room to expand somewhat. I wouldn't put it at again what we experienced in the first quarter given the different financial in and outs with the acquisition that went on.

But if we can get another, let's say, 3 or 4 or 5 basic points on loans going forward, I think we can (inaudible) -- we had some drag on cash in Q1 as well which we will be

able to deploy more easily going forward, just given the system's issues. So again, I think the margin can increase throughout the year. I wouldn't put it at 8 basis points on a quarter basis but maybe 3 to 4 to 5 basis points.

Operator^ We have a follow up question from Daniel Cardenas with Brean Capital.

Daniel Cardenas^ [Couple quick] questions. So the margin discussion that you just had John, are you talking 3 to 5 basis points for the remainder of the year or perhaps over the next couple of quarters?

John McCaffery^ Over the next couple of quarters.

Daniel Cardenas^ Great. And then the fee income side, (inaudible) quarter over quarter, what are some of the drivers that could potentially drive that number higher as we look at 2Q and beyond?

Jim Donnelly^ So, part of it, Dan, is we were an underperformer from debit revenue. So we put a strategy in place a couple of years ago and changed the way we were looking about that and promoting that. So part of it is getting more debit cards in more people's hands and promoting the utilization of it.

And then we've been working on growing our fee income businesses for the last few years and then starting to pay dividends. But there's lots of room for us to grow there, it's just a matter of making sure we're able to staff up appropriately to grow our brokerage costs and mortgage businesses. And treasury management is geared up for the second half of the year, should do a nice job as well.

Daniel Cardenas^ I was just going to ask you about that, okay perfect. All right. I will step back.

Operator^ That concludes today's question and answer session. I'd like to turn the call over to Jim Donnelly for closing remarks.

Jim Donnelly^ Thank you once again for joining us this morning. We made a great start to 2026, continuing the momentum built in 2025 and as we live out our mission to help our customers and communities build strong financial futures, so that every day, every year, every generation is better than the last.

As we continue to integrate the Presence Bank acquisition and benefit from the shared best practices, we will be better positioned to deliver that better future united to serve our communities.

As we move forward, our disciplined approach, high-quality credit metrics and careful execution enables us to deliver improved financial results and lasting value for our shareholders. I look forward to updating you on our progress. Have a great day.

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