Call Participants

EXECUTIVES

Jeffrey M. Schweitzer *Chairman, President & CEO*

Brian J. Richardson
Sr EVP & Chief Financial Officer

Michael S. Keim *President & Director*

ANALYSTS

Jake Morton
Stephens Inc.

Timothy Jeffrey Switzer
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good morning and welcome, everyone, to the Univest Financial Corporation Second Quarter 2026 Earnings Call. Today's conference is being recorded. [Operator Instructions] At this time, I would like to turn the conference over to Jeff Schweitzer, Chairman, President and CEO of Univest Financial Corporation. Please go ahead.

Jeffrey M. Schweitzer
Chairman, President & CEO

Thank you, Audra, and good morning, and thank you to all of our listeners for joining us. Joining me on the call this morning is Mike Keim, our Chief Operating Officer and President of Univest Bank and Trust; and Brian Richardson, our Chief Financial Officer.

Before we begin, I would like to remind everyone of the forward-looking statements disclaimer. Please be advised that during the course of this conference call, management may make forward-looking statements that express management's intentions, beliefs or expectations within the meaning of the federal securities laws. Univest's actual results may differ materially from those contemplated by these forward-looking statements. I will refer you to the forward-looking cautionary statements in our earnings release and in our SEC filings.

Hopefully, everyone had a chance to review our earnings release from yesterday. If not, it can be found on our website at univest.net under the Investor Relations tab. We had a solid second quarter as we reported net income of $23 million or $0.82 per share, which was an 18.8% increase compared to earnings per share in Q2 of 2025. Our results for the quarter were impacted by a $5.2 million valuation adjustment on an OREO property due to an updated appraisal, which impacted earnings per share for the quarter by $0.15. Excluding this adjustment, our core operating results for the quarter were strong.

Loan growth for the quarter was solid as we grew loans by $101.7 million or 6% annualized. Total deposits for the quarter increased to $119.2 million or 7.2% annualized. We continue to execute on our initiative to lower our loan-to-deposit ratio, which on average was 180 basis points lower year-to-date than through the first 6 months of 2025. We also continue to be active with respect to stock buybacks, buying back 425,539 shares of our stock during the quarter. Year-to-date, we have repurchased 776,677 shares. Before I pass it over to Brian, I would like to thank the entire Univest family for the great work they do every day and for their continued efforts serving our customers, communities and each other.

I'll now turn it over to Brian for further discussion on our results.

Brian J. Richardson
Sr EVP & Chief Financial Officer

Thank you, Jeff, and thank you to everyone for joining us today. I would like to start by touching on three items from the earnings release. First, we saw continued strength and stability in our net interest income and margin during the quarter. Reported net interest margin expanded 16 basis points from the first quarter to 3.49%. In addition, core NIM, which excludes the impact of excess liquidity, increased 9 basis points to 3.53%. Net interest income increased $2.9 million or 4.5% compared to the first quarter and increased $6.7 million or 11.3% compared to the second quarter of 2025, driven by continued growth in average loan balances, improved asset yields and a reduction in our overall cost of funds.

Second, as it relates to credit, the quarter included 2 notable items. First, as Jeff mentioned, we recorded a $5.2 million pre-tax valuation adjustment on an OREO property based on an updated appraisal, reflecting the property's estimated fair value less cost to sell. This reduced earnings by $4.1 million after-tax or $0.15 per diluted share. Second, during the quarter, a commercial loan relationship totaling $28.6 million was placed on nonaccrual status and a specific reserve of $9.8 million was established.

Net charge-offs for the quarter were $1.9 million or 11 basis points annualized and our allowance for credit losses remains -- coverage ratio remained stable at 1.28% of total loans held for investment. Third, noninterest income was $18.1 million for the quarter, a decrease of $3.4 million compared to the second quarter of 2025, primarily due to the $5.2 million OREO valuation adjustment. Excluding that item, underlying fee income trends remained solid as these businesses continue to perform well.

Investment advisory commission and fee income increased $583,000 or 10.7% compared to the prior year, driven by appreciation in assets under management and new customer relationships. Net gain on mortgage banking activities increased $365,000 or 37.2% compared to the prior year, primarily due to increased salable volume and improved margins. We also recognized $708,000 of tax-free BOLI death benefit proceeds during the quarter.

Turning briefly to our outlook for the remainder of 2026. Based on our performance during the first half of the year and our current assumptions, we are maintaining our outlook for loan growth of approximately 2% to 3%, noninterest income growth of approximately 6% to 8%, excluding BOLI death benefits and OREO valuation adjustments, noninterest expense growth of 3% to 5% and provisioning of $11 million to $13 million. However, as I've said in the past, our provisioning is event-driven and may be impacted in the second half of the year, depending on the final resolution of the $28.6 million loan that was placed on nonaccrual during the second quarter as well as other charge-off activity, loan growth, changes in economic conditions and the resulting impact on our coverage ratio. We are updating our full year net interest income growth outlook to a range of 8% to 10%, reflecting the strength of the first half of the year and continued margin stability. Our effective tax rate is expected to remain in the 20% to 21% range. That concludes my prepared remarks. Audra, would you please begin the question-and-answer session?

Question and Answer

Operator
[Operator Instructions] We'll take our first question from Tim Switzer at KBW.

Timothy Jeffrey Switzer
Keefe, Bruyette, & Woods, Inc., Research Division

My first one is on the outlook for loan growth. You guys maintained the low single-digit guide here. Could you maybe talk about the competition you're seeing in your various markets and if you're seeing intensifying in any -- either a specific market or a loan category? And then more specifically on the loan yield, it seems like there's a lot of competition there.

Michael S. Keim
President & Director

Tim, it's Mike Keim. So, I would agree with your question, quite frankly. We are seeing increased competition on the pricing side of the equation across the board in all of our markets. we still do believe there's room enough for us to get an adequate margin and participate to hit the numbers that -- the loan growth numbers that Brian referenced a couple of minutes ago. But certainly, it is increasing competition. Spreads are narrowing. I would just imagine everybody is looking to fight for asset growth. So that's what's translating here. It's one of the reasons why we pivoted from more long-term CRE to more construction-oriented financing because we still believe that there's an ability to get a little bit wider margin and fee income out of that side of the -- out of that product offering.

Timothy Jeffrey Switzer
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's helpful. And then can you discuss, I guess, what the NIM trajectory looks like for you going forward, especially what would be the impact of rate hikes? Previously, you guys have talked about being pretty neutral, but obviously, that was an environment where we're looking more towards rate cuts.

Brian J. Richardson
Senior Executive VP & CFO

Tim, this is Brian. Yes. So from a rate change perspective, either up or down, really at this point, we do model out fairly neutral. That said, I would think kind of for the next several quarters, assuming nothing drastic occurs, I'd expect kind of NIM to hold in that current range, give or take a couple of basis points. So in that 3.50% range, plus or minus, call it, 5 basis points either way is where I expect us to kind of operate for the next several quarters.

Timothy Jeffrey Switzer
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And that's even with -- that's even assuming any changes to like the liquidity -- excess liquidity on the balance sheet?

Brian J. Richardson
Senior Executive VP & CFO

So that's from a core NIM perspective. Of course, excess liquidity will have its impact on our reported NIM. But from a core NIM perspective, I expect us to maintain in kind of that 3.50% range, give or take.

Timothy Jeffrey Switzer
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Very helpful. And then on the credit side of things, can you maybe remind us of this OREO property? I know it was OREO 4 years ago. Can you remind us maybe what market it's in or the loan category, is this CRE loan?

Brian J. Richardson
Senior Executive VP & CFO

Yes. So it's a lab space built office building that is approximately 165,000 square feet and it's located in the Princeton market. So there were significant repairs that were required on that building. Those were completed first quarter into second quarter of last year. So there was a time period where the property wasn't being marketed. We started marketing it second quarter last year, and then kind of continue those efforts now, got an updated appraisal and as a result of kind of comps in the market, both from a sale perspective as well as a rental square foot perspective, there was pressure on both of those, which resulted in a decrease in value from an appraised perspective.

Timothy Jeffrey Switzer
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And it sounds like this has now been on sale for about a year. Any time line on when you think this can -- a buyer can be found and the deal closed?

Brian J. Richardson
Senior Executive VP & CFO

Not. Again, that's going to be kind of event-driven circumstance driven, hopefully, we'll continue to market it, and we'll see how that kind of plays out here over the next couple of quarters.

Timothy Jeffrey Switzer
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then the last one on the other credit here that moved to nonaccrual. Any color you can provide on the industry it's in, maybe what's causing the issues? And it sounds like the provision guidance this year is depending on the resolution. Is this one that could be resolved this year?

Michael S. Keim
President & Director

Tim, it's Mike Keim again. So first off, it is an operating business. It's a C&I credit. It's a seasonal business with more of a discretionary kind of items that -- they're both a manufacturer and distributor. So the seasonality is really strongest late in the third quarter into the fourth quarter. So we would continue to see how that evolves. The specific reserve that was put up was based upon -- there are some indications of interest on the company as a whole and kind of where we are from a financial perspective. We're going to get updated 6/30 financial statements, and we're investigating. Can we -- are there opportunities with -- do we have to look at a total sale of the company at some point in time? Or could we sell it in parts? It will be what is the best answer for the collective situation here as we move forward.

And truth be told, we still need to learn a little bit more and update our analysis on that. So would I love to see it go on or disposed with in some positive fashion in the rest of the year? Yes. Can I guarantee it?That might not be the best answer, quite frankly. And we will just work through this and take the best answer for us.

Operator

We'll move to our next question from Jake Morton at Stephens Inc.

Jake Morton
Stephens Inc.

This is Jake Morton on for Matt Breese. I want to start out, I'm curious on what was the spot cost of deposits in the spot NIM at the end of the quarter. And I'm just curious on how you feel about your ability to maintain or further lower deposit costs from here.

Brian J. Richardson
Senior Executive VP & CFO

Jake, this is Brian. So really spot deposit costs. Of course, when you have builds and things like that occur, there'll be a little bit of noise there, but really tracks what we saw for the quarter. As it relates to ability to reduce cost of deposits and cost of funds, kind of where we're at right now, again, assuming a stable rate environment, I wouldn't expect much opportunity. We have just over $300 million of CDs that mature here in, call it, the third quarter.

And as we look at what we're offering -- our current offering rates, they're at that level or slightly above. So there's not much opportunity to reprice down there. That's why that NIM outlook and guide really is stable at this point in time because you have a little bit of opportunity on the asset side and a little flat to a little bit of pressure on the liability side, and you kind of see that play out as a stable core NIM.

Jake Morton
Stephens Inc.

Got it. Okay. I appreciate the color there. And then thinking about the NIM longer term, when you model it out, how much longer might we see fixed asset repricing benefits to the NIM? And I'm particularly focused on 2028 given 5 years prior in 2023 loan yield spiked for the industry. And I'm generalizing, but thinking we start to roll some of those off is what I'm curious about and what the impacts are.

Brian J. Richardson
Senior Executive VP & CFO

So out to '28 and all, I mean, really looking through next year, I expect relative stability with slight upside, '28, again, a lot is likely to change between now and then. So I wouldn't necessarily try to put a pin in the ground on that.

Jake Morton
Stephens Inc.

Got it. Okay. And last for me on the deal appetite from here. I'm just curious your perspective on activity in the market. It's been sluggish from a deal perspective, but curious if conversations are similarly slow.

Jeffrey M. Schweitzer
Chairman, President & CEO

Yes. This is Jeff. So we're definitely open to conversations on M&A, both on the bank side and also on wealth or insurance organizations. And we're always out talking to people. As we always say, something it has to be for sale. You can't just go and buy it, whether you like it or not. So it is something, there are conversations happening. I would say it did slow down for a little while there, but there are still conversations that are occurring in the market that we're participating on. But I can't tell you that there's anything imminent or that it will result in anything in the near term because, frankly, there has to be something that is actually for sale.

And obviously, there has to be an agreement on what it looks like going forward. So I would say it's active, not as active, but there's still conversations occurring and we are open to having them.

Operator

We'll go next to Manuel Navas at Piper Sandler.

Unknown Analyst

I'm [Eknor Najjar]. I'm here for Manuel. I had a question about what do your deposit pipelines look like? And also on the talent side, what is sort of like the new wave of talent hires going forward? And any color you could provide on that front?

Michael S. Keim
President & Director

Sure. Look, on the deposit pipeline, the first side of that equation, we continue to be active in that. We have a compelling -- Brian referenced a little bit in terms on the NIM question previously, but we have a compelling offer on the CD side, and we have strong appetite that's coming on that. And then we've talked in previous calls about the number of initiatives. We have a union initiative where we pursue union deposits. Our public funds build will happen in the third quarter. So, pipelines are strong. Some of that is kind of the seasonal nature of our public fund business, so that will build strongly.

And we have various offers that will be in the marketplace. working with title companies, law firms, et cetera, all sources that will ultimately play to grow our deposit base over time. So, we're happy with that. This is going to be the ramp-up time where we'll have some excess liquidity and have an increase in our public funds as we traditionally see.

Moving to the talent side. We've been active in the marketplace. We have hired a couple of new RMs in the recent time period here. This is one of those things that when talent becomes available, you need to take that opportunity and add that talent to your team, and we will continue to do that. There's not a ton of disruption in the marketplace. But when there is, that's when the talent seems to be available to us, and we're always in conversations similar to what Jeff referenced on an M&A side. We're always talking to people and trying to see if we can get good quality talent to join our organization.

Unknown Analyst
That's helpful. Also, I was looking at your buyback pace, you bought back about 1.5% of outstanding shares. Should we kind of expect the same pace to continue going forward?

Jeffrey M. Schweitzer
Chairman, President & CEO

We intend to continue to be active on our buyback plan. We have a lot of shares still authorized. Obviously, there's been a run-up in our price, and we want to make sure that we are effectively using capital and balancing all of the other things we talked about from M&A opportunities and growing the balance sheet. We're balancing all of that, but we expect that we will continue to be active on the buyback front for the near term for sure.

Brian J. Richardson
Senior Executive VP & CFO

Yes. And really, the kind of guide there is not looking to grow our capital ratios really kind of from where we started the year. You'll see they grew in the first quarter, then they came back down here in the second quarter as we did the buyback. So we'll look to continue to kind of manage in that general range.

Operator

And that concludes our Q&A session. I will now turn the conference back over to Jeff Schweitzer for closing remarks.

Jeffrey M. Schweitzer
Chairman, President & CEO

Thank you, Audra, and thank you for everyone participating this morning on our call. We've had a strong start to the year through the first 6 months, and we're excited about the next 6 months as we continue to execute on our strategic plans and continue to grow our organization for the long term. Look forward to talking to everybody at the end of next quarter. Have a great day.

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