UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2024

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from_____ to_____

Commission file number 001-38884

FRANKLIN FINANCIAL SERVICES CORPORATION
(Exact name of registrant as specified in its charter)

Pennsylvania	25-1440803
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1500 Nitterhouse Drive, Chambersburg, PA	17201-0819
(Address of principal executive offices)	(Zip Code)

(717) 264-6116
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Trading Symbol	Name of exchange on which registered
Common stock	FRAF	Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒	Smaller reporting company ☒
			Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes ☐ No ☒

The aggregate market value of the 3,923,104 shares of the Registrant's common stock held by nonaffiliates of the Registrant as of June 30, 2024 based on the price of such shares was $110,945,381.

There were 4,440,442 outstanding shares of the Registrant's common stock as of February 28, 2025.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive annual proxy statement to be filed, pursuant to Reg. 14A within 120 days after December 31, 2024, are incorporated into Part III.

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Part I

Item 1. Business

General

Franklin Financial Services Corporation (the "Corporation") was organized as a Pennsylvania business corporation on June 1, 1983 and is a registered bank holding company under the Bank Holding Company Act of 1956, as amended (the "BHCA"). On January 16, 1984, pursuant to a plan of reorganization approved by the shareholders of Farmers and Merchants Trust Company of Chambersburg ("F&M Trust" or "the Bank") and the appropriate regulatory agencies, the Corporation exchanged all of the shares of F&M Trust and issued its own shares of the Corporation to former F&M Trust shareholders on a one share – for - one share basis.

The Corporation's common stock is listed under the symbol "FRAF" on the Nasdaq Capital Market. The Corporation's internet address is www.franklinfin.com. Electronic copies of the Corporation's 2024 Annual Report on Form 10-K are available free of charge by visiting the "Investor Information" section of www.franklinfin.com. Electronic copies of quarterly reports on Form 10-Q and current reports on Form 8-K are also available at this internet address. These reports are posted as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission (SEC). This reference to the Corporation's internet address shall not, under any circumstances, be deemed to incorporate the information available at such internet address into this Form 10-K or other SEC filings. The information available at the Corporation's internet address is not part of this Form 10-K or any other report filed by the Corporation with the SEC. The Corporation's SEC filings can also be obtained on the SEC's website on the internet at http://www.sec.gov.

The Corporation conducts substantially all of its business through its wholly-owned direct banking subsidiary, F&M Trust. F&M Trust, established in 1906, is a full-service, Pennsylvania-chartered commercial bank and trust company, which is not a member of the Federal Reserve System. F&M Trust operates twenty-three community banking offices in Franklin, Cumberland, Dauphin, Fulton and Huntingdon Counties, Pennsylvania; and Washington County, Maryland. It also has a location in Dauphin County, PA that serves as a regional support center for Commercial, and Wealth Management services. The Bank engages in general commercial, retail banking and trust services normally associated with community banks and its deposits are insured (up to applicable legal limits) by the Federal Deposit Insurance Corporation (the "FDIC"). F&M Trust offers a wide variety of banking services to businesses, individuals, and governmental entities. These services include, but are not necessarily limited to, accepting and maintaining checking, savings, and time deposit accounts, providing wealth management services, making loans and providing safe deposit facilities. Franklin Future Fund Inc., a direct subsidiary of the Corporation, is a non-bank investment company that makes venture capital investments, limited to 5% or less of the outstanding shares of any class of voting securities of any company, within the Corporation's primary market area. Franklin Financial Properties Corp. is a "qualified real estate subsidiary," a wholly owned subsidiary of F&M Trust and was established to hold real estate assets used by F&M Trust in its banking operations.

F&M Trust is not dependent upon a single customer or a few customers for a material part of its business. Thus, the loss of any customer or identifiable group of customers would not materially affect the business of the Corporation or the Bank in an adverse manner. Also, none of the Bank's business is seasonal. The Bank's lending activities consist primarily of commercial real estate, construction and land development, commercial and industrial loans, installment and revolving loans to consumers and residential mortgage loans. Secured and unsecured commercial and industrial loans, including accounts receivable and inventory financing, and commercial equipment financing, are made to small and medium-sized businesses, individuals, governmental entities, and non-profit organizations.

The Bank classifies loans in this report by the type of collateral, primarily residential or commercial real estate. Loans secured by residential real estate loans may be further broken down into consumer or commercial purposes. Consumer purpose residential real estate loans represent traditional residential mortgages and home equity products. Both of these products are underwritten in generally the same manner; however, home equity products may present greater risk since many of these loans are secured by a second lien position where the Bank may or may not hold the first lien position. Commercial purpose residential real estate loans represent loans made to businesses but are secured by residential real estate. These loans are underwritten as commercial loans and the repayment ability may be dependent on the business operation, despite the residential collateral. In addition to the real estate collateral, it is possible that personal guarantees or other business assets provide additional security. In certain situations, the Bank acquires properties through foreclosure on delinquent loans. The Bank initially records these properties at the estimated fair value less cost to sell with subsequent adjustments to fair value recorded as needed.

Commercial real estate loans are secured by properties such as hotels, office buildings, apartment buildings, retail sites, and farmland or agricultural related properties. These loans are highly dependent on the business operations for repayment. Compared to residential real estate, this collateral may be more difficult to sell in the event of a default.

Construction loans are made to finance the purchase of land and the construction of residential and commercial buildings and are secured by mortgages on real estate. These loans are primarily comprised of loans to consumers to build a home, and loans to contractors and developers to construct residential properties for resale or rental. Construction loans present various risks that include, but are not limited to: schedule delays, cost overruns, changes in economic conditions during the construction period, and the inability to sell or rent the property upon completion.

Commercial loans are made to businesses and government municipalities of various sizes for a variety of purposes including operations, property, plant and equipment, and working capital. These loans are highly dependent on the business operations for repayment and are generally secured by business assets and personal guarantees. As such, this collateral may be more difficult to sell in the event of a delinquency. Commercial lending, including commercial real estate, is concentrated in the Bank's primary market, but also includes purchased loan participations originated primarily in south-central Pennsylvania.

Consumer loans are comprised of unsecured personal lines of credit and installment loans. While some of these loans are secured, the collateral behind the loans is often comprised of assets that lose value quickly (e.g., automobiles) and if repossessed, may not fully satisfy the loan in the event of default. Repayment of these loans is highly dependent on the borrowers' financial condition that can be affected by economic factors beyond their control and personal circumstances.

The Bank offers numerous deposit products including demand deposits (noninterest and interest-bearing accounts), savings, money management accounts, and time deposits (certificates of deposits/CDs) to retail, commercial, and municipal customers.

F&M Trust's Wealth Management Department offers all of the personal and corporate trust services normally associated with community bank trust departments including: estate planning and administration, corporate and personal trust fund management, pension, profit sharing and other employee benefit funds management, custodial services, and non-trust related investment services. F&M Trust through licensed members of its Wealth Management Department sells mutual funds, annuities and selected insurance products.

Competition

The Corporation and its banking subsidiary operate in a highly competitive environment. The principal market of F&M Trust is south central Pennsylvania, primarily the counties of Franklin, Cumberland, Dauphin, Fulton, Huntingdon; and Washington County, MD. The competing banks in this market range from large regional banks to independent community banks. In addition, credit unions, mortgage banks, brokerage firms and other on-line competitors compete within the market.

The following table shows the Bank's market share where it operates deposit taking banking offices as reported on the June 30, 2024 FDIC Summary of Deposits Report:

(Dollars in thousands)

	F&M Trust			
County, State	# of Locations	Deposits	Market Deposits	Market Share
Franklin, PA	12	$ 1,075,350	$ 2,885,333	37.27%
Cumberland, PA	6	382,645	11,173,591	3.42%
Fulton, PA	2	92,139	209,514	43.98%
Huntingdon, PA	1	27,374	727,198	3.76%
Washington, MD	1	19,112	3,275,562	0.58%
	22	$ 1,596,620	$ 18,271,198	8.74%

With increasing competition, many nonbanking institutions offer services similar to those offered by the Bank. Some competitors may have access to resources (e.g., financial and technological) sooner than they are available to the Bank, or that may be unavailable to the Bank, thereby creating a competitive disadvantage for the Bank in terms of product, service pricing and delivery. In addition, credit unions increasingly compete with banks for deposits and certain types of loans. The Bank utilizes various strategies including its long history of local customer service and convenience as part of a relationship management culture, a wide variety of products and services and, to a lesser extent, the pricing of loans and deposits, to compete. F&M Trust is the largest financial institution headquartered in Franklin County, PA and had total assets of approximately $2.2 billion on December 31, 2024.

Human Capital

Company Overview and Values. At F&M Trust, we recognize that our employees are fundamental to the realization of our vision and the execution of our ongoing strategy. We are committed to fostering and maintaining a strong, healthy organizational culture that aligns with our core values and empowers our employees to thrive. Our company values—integrity, excellence, accountability, teamwork, and concern for our customers and communities—guide every aspect of our operations. We believe that by upholding these principles, we not only strengthen our internal cohesion but also enhance our ability to serve our customers, support our communities, and deliver value to our shareholders. Through our unwavering commitment to our employees and our values, we are confident in our ability to sustain our independence as a community bank and continue delivering exceptional service and value to our customers, communities, and shareholders for years to come.

Equal Employment Opportunity & Workplace Inclusion. At F&M Trust, we are deeply committed to fostering a workplace that upholds equal employment opportunity, promotes fairness, and cultivates an inclusive culture. Our success as an organization depends on the contributions of all employees, and we are dedicated to maintaining a work environment that is equitable, supportive, and welcoming to everyone. We uphold these principles in full compliance with all relevant laws and regulations.

Engagement. We are dedicated to fostering a positive and productive work environment where employees feel valued, motivated, and connected to our organization. Employee engagement—defined as the enthusiasm and commitment individuals have toward their work and the company—is a key priority for us. It reflects how willing employees are to go above and beyond, as well as their dedication to building a future with F&M Trust. A cornerstone of our engagement efforts is our annual employee engagement survey, conducted by an independent third party. In 2024, we achieved an outstanding 94% response rate, marking the seventh consecutive year of best-in-class participation. Our overall engagement score reached 83%, highlighting our employees' strong connection to F&M Trust and our shared commitment to success.

Employee Training and Development. To empower our employees to unleash their full potential, we offer a comprehensive range of training and development programs, opportunities, and resources tailored to their needs. Identifying and nurturing the talents of our next generation of leaders is also a priority for us. We regularly conduct succession planning and talent reviews to identify and nurture top talent within the organization.

Wellness. The well-being of our employees is paramount to the success of our Bank, and we demonstrate our commitment to their holistic wellness through our comprehensive wellness program, which has been a cornerstone of our culture since 2001. Our wellness program boasts high levels of employee participation, with over 75% of our workforce completing health risk assessments and 72% completing biometric screenings in 2024.

Competitive Pay and Benefits. F&M Trust's compensation program is designed to align the compensation of our employees with the Bank's performance and to provide the proper incentives to attract, retain, and motivate employees to achieve the Bank's strategic growth objectives. The Bank's compensation philosophy is to provide pay opportunities at the median level of prevailing industry practices among community banking companies of similar asset size and market type.

Retention. Monitoring employee turnover rates is crucial for us. Retaining our talented and committed personnel is essential for our continued success. In 2024, our total voluntary turnover rate was 10.10%. The long-term and short-term commitment metrics from our most recent employee engagement survey were measured higher than the financial services industry benchmarks, which underscores a strong sense of loyalty to the bank among our employees.

Community Involvement. The Bank's commitment to community service reflects our core values. We aim to give back to the communities where we live and work and believe this commitment helps in our efforts to attract and retain employees. In 2024, F&M Trust donated over $591 thousand to 325 organizations in our communities and funded 392 scholarships for $227 thousand to kindergarten through 12th grade and Pre-kindergarten schools and organizations through the Pennsylvania Educational Improvement Tax Credit program. In addition, employees of the Bank provided 2,132 volunteer hours to 90 different service organizations.

Supervision and Regulation

Various requirements and restrictions under the laws of the United States and the Commonwealth of Pennsylvania affect the Corporation and its subsidiaries.

General

The Corporation is registered as a bank holding company and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (Federal Reserve) under the Bank Holding Act of 1956, as amended. The Corporation has also made an effective election to be treated as a "financial holding company." Financial holding companies are bank holding companies that meet certain minimum capital and other standards and are therefore entitled to engage in financially related activities on an expedited basis as further discussed below. Bank holding companies are required to file periodic reports with and are subject to examination by the Federal Reserve. The Federal Reserve has issued regulations under the Bank Holding Company Act that require a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. As a result, the Federal Reserve, pursuant to such regulations, may require the Corporation to stand ready to use its resources to provide adequate capital funds to its Bank subsidiary during periods of financial stress or adversity. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to influence the economy.

The Bank Holding Company Act prohibits the Corporation from acquiring direct or indirect control of more than 5% of the outstanding shares of any class of voting stock, or substantially all of the assets of any bank, or from merging or consolidating with another bank holding company, without prior approval of the Federal Reserve Board. Additionally, the Bank Holding Company Act

prohibits the Corporation from engaging in or from acquiring ownership or control of more than 5% of the outstanding shares of any class of voting stock of any company engaged in a non-banking business, unless such business is determined by the Federal Reserve to be so closely related to banking as to be a proper incident thereto. Federal law and Pennsylvania law also require persons or entities desiring to acquire certain levels of share ownership (generally, 10% or more, or 5% or more for another bank holding company) of the Corporation to first obtain prior approval from the Federal Reserve and the Pennsylvania Department of Banking and Securities.

As a Pennsylvania bank holding company for purposes of the Pennsylvania Banking Code, the Corporation is also subject to regulation and examination by the Pennsylvania Department of Banking and Securities.

The Bank is a state-chartered bank that is not a member of the Federal Reserve System, and its deposits are insured (up to applicable legal limits) by the Federal Deposit Insurance Corporation (FDIC). Accordingly, the Bank's primary federal regulator is the FDIC, and the Bank is subject to extensive regulation and examination by the FDIC and the Pennsylvania Department of Banking and Securities. The Bank is also subject to requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered. The Bank is subject to extensive regulation and reporting requirements in a variety of areas, including helping to prevent money laundering, to preserve financial privacy, and to properly report late payments, defaults, and denials of loan applications.

Dodd-Frank Wall Street Reform and Consumer Protection Act

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) became law. Dodd-Frank is intended to affect a fundamental restructuring of federal banking regulation. Among other things, Dodd-Frank created a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms. Dodd-Frank additionally created a new independent federal regulator to administer federal consumer protection laws. Dodd-Frank has made a significant impact on our business operations as its provisions took effect. Among the provisions that have affected the Corporation are the following:

FDIC Insurance. The insurance limit was increased to $250,000 per depositor. In addition, the assessment base was changed from a deposit-based calculation to an asset-based calculation. Dodd-Frank also eliminated the federal statutory prohibition against the payment of interest on business checking accounts.

Compensation. At least once every three years, companies must conduct a non-binding shareholder vote (say-on-pay) to approve the compensation of the CEO and the company's "named executive officers." At least once every 6 years, shareholders must also vote on whether to hold the non-binding vote on executive compensation every 1, 2, or 3 years. Additionally, banking regulators have established guidance that prohibits incentive-based compensation arrangements that encourage inappropriate risks that could lead to material financial loss to the institution.

Consumer Financial Protection Bureau. Dodd-Frank created an independent federal agency called the Consumer Financial Protection Bureau (CFPB), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. Dodd-Frank authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, Dodd-Frank will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. Dodd-Frank permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

The Dodd-Frank rules and regulations have and will continue to significantly change the current bank regulatory structure and affect the lending, deposit and operating activities of financial institutions, including the Corporation. It remains difficult to anticipate or predict the overall future and long-term financial impact the Dodd-Frank Act will have on the Corporation, our customers, our financial condition and results of operations. The Corporation continues to monitor and implement rules and regulations as they are adopted and modified, and to evaluate their application to our current and future operations.

Community Reinvestment Act

The Community Reinvestment Act (CRA) requires the Bank to help meet the credit needs of the entire community where the Bank operates, including low and moderate-income neighborhoods. The Bank's rating under the Community Reinvestment Act, assigned by the FDIC pursuant to an examination of the Bank, is important in determining whether the bank may receive approval for,

or utilize certain streamlined procedures in applications to engage in new activities. The Bank's present CRA rating is "satisfactory." Various consumer laws and regulations also affect the operations of the Bank.

Capital Adequacy Guidelines

The Corporation, as a bank holding company, is required to comply with the capital adequacy standards established by the Federal Reserve Board. The Bank is required to comply with capital adequacy standards established by the FDIC. In addition, the Pennsylvania Department of Banking and Securities also requires state-chartered banks to maintain minimum capital ratios, defined substantially the same as the federal regulations.

Capital adequacy for the Bank is currently defined by regulatory agencies through the use of several minimum required ratios. The capital ratios to be considered "well capitalized" are: (1) Common Equity Tier 1 (CET1) of 6.5%, (2) Tier 1 Leverage of 5%, (3) Tier 1 Risk-Based Capital of 8%, and (4) Total Risk-Based Capital of 10%. In addition, a capital conservation buffer of 2.50% is applicable to all of the capital ratios except for the Tier 1 Leverage ratio. The capital conservation buffer is equal to the lowest value of the three applicable capital ratios less the regulatory minimum ("adequately capitalized") for each respective capital measurement. The Bank's capital conservation buffer at December 31, 2024 was 4.96%. Compliance with the capital conservation buffer is required in order to avoid limitations on certain capital distributions, especially dividends. As of December 31, 2024, the Bank was "well capitalized' under the Basel III requirements. For additional information on the capital ratios, see the section titled Shareholders' Equity and Table 13.

In 2019, the Community Bank Leverage Ratio (CBLR) was approved by federal banking agencies as an optional capital measure available to Qualifying Community Banking Organizations (QCBO). If a bank qualifies as a QCBO and maintains a CBLR of 9% or greater, the bank would be considered "well-capitalized" for regulatory capital purposes and exempt from complying with the risk-based capital rule described above. The CBLR rule took effect January 1, 2020 and banks could opt-in through an election in the first quarter 2020 regulatory filing. The Bank met the criteria of a QCBO but did not opt-in to the CBLR.

Prompt Corrective Action Rules

The federal banking agencies have regulations defining the levels at which an insured institution would be considered "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." The applicable federal bank regulator for a depository institution could, under certain circumstances, reclassify a "well-capitalized" institution as "adequately capitalized" or require an "adequately capitalized" or "undercapitalized" institution to comply with supervisory actions as if it were in the next lower category. Such a reclassification could be made if the regulatory agency determines that the institution is in an unsafe or unsound condition (which could include unsatisfactory examination ratings). At December 31, 2024, the Bank satisfied the criteria to be classified as "well capitalized" within the meaning of applicable regulations.

Regulatory Restrictions on Dividends

Dividend payments by the Bank to the Corporation are subject to the Pennsylvania Banking Code, the Federal Deposit Insurance Act, and the regulations of the FDIC. Under the Banking Code, no dividends may be paid except from "accumulated net earnings" (generally, retained earnings). The Federal Reserve and the FDIC have formal and informal policies which provide that insured banks and bank holding companies should generally pay dividends only out of current operating earnings, with some exceptions. The Prompt Corrective Action Rules and the Basel III rules, described above, may further limit the ability of banks to pay dividends or make capital distributions if regulatory capital requirements are not met. There are currently no restrictions on the payments of dividends by either the Bank or the Corporation.

Volker Rule

In December 2013, Federal banking regulators issued rules for complying with the Volker Rule provision of the Dodd-Frank Act. The Bank does not engage in, or expect to engage in, any transactions that are considered "covered activities" as defined by the Volker Rule. Therefore, the Bank does not have any compliance obligations under the Volker Rule.

Consumer Laws and Regulations

The CFPB was created under the Dodd-Frank Act to centralize responsibility for consumer financial protection with broad rulemaking, supervision, and enforcement authority for a wide range of consumer protection laws that would apply to all banks and thrifts, including the Equal Credit Opportunity Act, Truth in Lending Act ("TILA"), Real Estate Settlement Procedures Act ("RESPA"), Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act, and certain other statues. Violations of consumer protection laws may result in litigation and liability from consumers and regulators. It is likely that future CFPB rulemaking action will affect the Bank. Banks with total assets less than $10 billion are not subject to examination by the CFPB. However, the CFPB can require any bank to submit reports it deems necessary to fulfill its mission and it can request to be part of any bank examination.

Ability to Repay / Qualified Mortgages

In July 2013, the Consumer Finance Protection Bureau adopted the final rules that implement the Ability to Repay (ATR) / Qualified Mortgages (QM) provisions of the Dodd-Frank Act. Regulators believe that the ATR/QM rules will prevent many of the loose underwriting practices that contributed to the mortgage crisis in 2008. The ATR/QM rule applies to almost all closed-end consumer credit transactions secured by a dwelling. The ATR rule provides eight specific factors that must be considered during the underwriting process. QMs generally have three types of requirements: restrictions on loan features, points and fees, and underwriting criteria. A QM is presumed to comply with the ATR requirements. The ATR/QM rule was effective January 10, 2014.

Commercial Real Estate Guidance

In December 2015, the federal banking agencies released a "Statement on Prudent Risk Management for Commercial Real Estate Lending" (the "CRE Statement"). The agencies stated that financial institutions should review their policies and practices related to CRE lending and should maintain risk management practices and capital levels commensurate with the level and nature of their CRE concentration risk, including maintaining underwriting discipline and exercising prudent risk management practices that identify, measure, monitor and manage the risks arising from their CRE lending activity. Financial institutions were directed to review the interagency guidance on "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" issued in 2006 providing that a financial institution is potentially exposed to significant CRE concentration risk, and should employ enhanced risk management practices where (1) total non-owner occupied CRE loans, as defined by regulatory guidance, represent 300% or more of total capital, and (2) the outstanding balance of the CRE loan portfolio has increased by 50% or more during the prior 36 months. The agencies state in the CRE Statement that they will focus on those financial institutions that have recently experienced, or whose lending strategy plans for, substantial growth in CRE lending activity, or that operate in markets or loan segments with increasing growth or risk fundamentals. As of December 31, 2024, the Bank's non-owner occupied CRE loans were 343% of total capital.

Pennsylvania Regulation and Supervision

In December 2012, the "Banking Law Modernization Package" became effective. The law permits banks to disclose formal enforcement actions initiated by the Pennsylvania Department of Banking and Securities, clarifies that the Department has examination and enforcement authority over subsidiaries as well as affiliates of regulated banks, and bolsters the Department's enforcement authority over its regulated institutions by clarifying its ability to remove directors, officers and employees from institutions for violations of laws or orders or for any unsafe or unsound practice or breach of fiduciary duty. The Department also may assess civil money penalties of up to $25,000 per violation.

FDIC Insurance

The Bank is a member of the Deposit Insurance Fund (DIF), which is administered by the FDIC. The FDIC insures deposit accounts at the Bank, generally up to a maximum of $250,000 for each separately insured depositor. The FDIC charges a premium to depository institutions for deposit insurance. This rate is based on the risk category of the institution and the total premium is based on average total assets less average tangible equity. As of December 31, 2024, the Bank was considered well capitalized and its assessment rate was approximately 5.8 basis points of the assessment base.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that might lead to termination of our deposit insurance.

New Legislation

Congress is often considering new financial industry legislation, and the federal banking agencies routinely propose new regulations. The Corporation cannot predict how any new legislation, or new rules adopted by the federal banking agencies, may affect its business in the future.

Selected Statistical Information

Certain statistical information is included in this report as part of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 1A. Risk Factors

The following is a summary of the primary risks associated with the Corporation's business, financial condition and results of operations, and common stock.

Risk Factors Relating to the Corporation

Real estate related loans are a significant portion of our loan portfolio.

The Bank offers a variety of loan products, including residential mortgage, consumer, construction and commercial loans. The Bank requires real estate as collateral for many of its loans. At December 31, 2024, approximately 83% ($1.159 billion) of its loans were secured by real estate. These real estate loans are located primarily in the Bank's market area of south-central Pennsylvania and Washington County, MD. Real estate values tend to follow changes in general economic cycles. If a loan becomes delinquent as the result of an economic downturn and the Bank becomes dependent on the real estate collateral as a source of repayment, it is likely that the value of the real estate collateral has also declined. A decline in real estate values means it is possible that the real estate collateral may be insufficient to cover the outstanding balance of a delinquent or foreclosed loan, resulting in a loss to the Bank. In addition, the real estate collateral is concentrated in the Bank's primary market area. Localized events such as plant closures or layoffs may affect real estate prices and collateral values and could have a more negative affect on the Bank as compared to other competitors with a more geographically diverse portfolio. As the Bank grows, it is expected that real estate secured loans will continue to comprise a significant part of its balance sheet. Risk of loan default is unavoidable in the banking industry, and Management tries to limit exposure to this risk by carefully monitoring the amount of loans in specific industries and by exercising prudent lending practices and securing appropriate collateral. However, this risk cannot be eliminated, and substantial credit losses could result in reduced earnings or losses.

Commercial loans are a significant portion of our loan portfolio.

The Bank continues to grow its commercial loan portfolio. Commercial purpose loans account for 79% ($1.111 billion) of the total loan portfolio. These loans are made to businesses for a variety of commercial purposes and may include fixed and variable rate loans, term loans, and lines of credit. Commercial purpose loans may be secured by real estate, business assets and equipment, personal guarantees, or non-real estate collateral. Commercial purpose loans secured by real estate were $880.1 million at December 31, 2024 and account for 79% of the total commercial loan portfolio or 63% of the total portfolio of the Bank. These loans contain all the risks associated with real estate lending as discussed above. In addition, commercial real estate collateral may be more difficult to liquidate for repayment purposes than residential real estate. The repayment of commercial loans is highly dependent upon the success of the business activity and as such maybe more susceptible to risk of loss during a downturn in the economy. Because the Bank's commercial loan portfolio is concentrated in south-central Pennsylvania, the ability to repay these loans could be affected by deterioration of the economy in this region. As commercial lending continues to be the primary driver of loan growth, these new loans may present additional risk due to a lack of repayment history with the Bank. The Bank attempts to mitigate these risks through its underwriting and loan review process; however, this risk cannot be eliminated, and substantial credit losses could result in reduced earnings or losses.

The Bank is subject to commercial real estate volatility that may result in increases in non-performing loans that could have an adverse impact on our financial condition and results of operations.

The commercial real estate market nationally, regionally, and locally has recently been subject to increased levels of volatility. Many believe that commercial real estate in the commercial office sector is undergoing a fundamental transformation and change that started during the recent pandemic but also continues due to evolving workplace environments. These changes in the marketplace affect the demand for commercial office space which in turn may affect the credit status, profitability, and collectability, of existing and future commercial real estate office sector loans. As explained above in greater detail in the risk factor for Credit Risk, volatility and increases in non-performing loans could have an adverse impact on our financial condition and results of operations.

The allowance for credit losses may prove to be insufficient to absorb inherent losses in our loan portfolio.

The Bank maintains an allowance for credit losses (ACL) that Management believes is appropriate to provide for any inherent losses in the loan portfolio. The amount of the allowance is determined through a periodic review and consideration of several factors, including an ongoing review of the quality, size and diversity of our loan portfolio; evaluation of nonperforming loans; historical loan loss experience; economic outlook; and the amount and quality of collateral, including guarantees, securing the loan. This evaluation is inherently subjective, as it requires material assumptions and estimates that may be susceptible to significant change.

Although Management believes the ACL is adequate to absorb inherent losses in the loan portfolio, such losses cannot be predicted, and the allowance may not be adequate. Excessive credit losses could have a material adverse effect on the Bank's financial condition and results of operations.

The Bank's lending limit is smaller than many of our competitors, which affects the size of the loans it can offer customers.

At December 31, 2024, the Bank's in-house policy lending limit was $29.6 million. Accordingly, the size of the loans that can be offered to customers is less than the size of loans that many of our competitors, with larger lending limits, can offer. This limit affects

the Bank's ability to seek relationships with larger businesses in its market area. Loan amounts in excess of the lending limits can be accommodated through the sale of participations in such loans to other banks. However, there can be no assurance that the Bank will be successful in attracting or maintaining customers seeking larger loans or that it will be able to engage in participation of such loans or on terms favorable to the Bank.

There is strong competition in the Bank's primary market areas and its geographic diversification is limited.

The Bank encounters strong competition from other financial institutions in its primary market area, which consists of Franklin, Cumberland, Dauphin, Fulton and Huntingdon Counties, Pennsylvania; and Washington County, MD. In addition, established financial institutions not already operating in the Bank's primary market area may open branches there at future dates or can compete in the market via the Internet. In the conduct of certain aspects of banking business, the Bank also competes with credit unions, mortgage banking companies, consumer finance companies, insurance companies and other institutions, some of which are not subject to the same degree of regulation or restrictions as are imposed upon the Bank. Many of these competitors have substantially greater resources and lending limits and can offer services that the Bank does not provide. In addition, many of these competitors have numerous branch offices located throughout their extended market areas that provide them with a competitive advantage. No assurance can be given that such competition will not have an adverse effect on the Bank's financial condition and results of operations.

Changes in interest rates could have an adverse impact upon our results of operations.

The Bank's profitability is in part a function of the spread between interest rates earned on investments, loans and other interest-earning assets and the interest rates paid on deposits and other interest-bearing liabilities. Interest rates are highly sensitive to many factors that are beyond the Bank's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, will influence not only the interest received on loans and investment securities and the amount of interest we pay on deposits and borrowings, but will also affect the Bank's ability to originate loans and obtain deposits and the value of our investment portfolio. If the rate of interest paid on deposits and other borrowings increases more than the rate of interest earned on loans and other investments, the Bank's net interest income, and therefore earnings, could be adversely affected. Likewise, recent changes in market interest rates have caused the Bank to quickly raise its rates on deposits. Earnings could also be adversely affected if the rates on loans and other investments fall more quickly than those on deposits and other borrowings. While Management takes measures to guard against interest rate risk, there can be no assurance that such measures will be effective in minimizing the exposure to interest rate risk.

Our operational or security systems may experience interruption or breach in security, including cyber-attacks.

We rely heavily on communications and information systems to conduct our business. These systems include our internal network and data systems, as well as those of third-party vendors. Any failure, interruption or breach in security or these systems, including a cyber-attack, could result in the disclosure or misuse of confidential or proprietary information. Cyber security risks for financial institutions have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state actors. Financial services institutions have been subject to, and are likely to continue to be the target of, cyber-attacks, including computer viruses, malicious or destructive code, phishing attacks, denial of service or information or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of the institution, its employees or customers or of third parties, or otherwise materially disrupt network access or business operations. Cyber threats could result in unauthorized access, loss or destruction of customer data, unavailability, degradation or denial of service, introduction of computer viruses and other adverse events, causing the Corporation to incur additional costs (such as repairing systems or adding new personnel or protection technologies). Cyber threats may also subject the Corporation to regulatory investigations, litigation or enforcement, require the payment of regulatory fines or penalties or undertaking costly remediation efforts. While we have systems, policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of client business, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations.

A large component of fee income is dependent on stock market values.

Fee income from the Bank's Wealth Management Department comprises a large percentage of total noninterest income. Fee income from Wealth Management Department is comprised primarily of asset management fees as measured by the market value of assets under management. As such, the market values are directly related to stock market values. Therefore, any significant negative change in the value of assets under management due to stock market fluctuations could greatly reduce fee income and have a material adverse effect on our financial condition and results of operations.

A large component of fee income is dependent on two deposit services.

Fee income from the Bank's debit card is a significant contributor of fee income. As technology changes and consumer payment preferences change it is possible that debit card income does not continue to grow or may decline. The Bank's overdraft protection program has also been a significant contributor of fee income. If usage of this product slows or regulatory changes negatively affect the fees that can be charged for such services, it may greatly reduce fee income and have a material adverse effect on our financial condition and results of operations.

A large percentage of deposits may be highly sensitive to changes in interest rates.

Thirty-eight percent ($694.9 million) of all deposits are in the Bank's money management product. The interest rate on these deposits generally follows market rates. A large or continuous increase in market rates could result in a rapid increase in the interest expense of these deposits. While the interest rate on this product generally follows market rates, the product is not indexed to a market rate, thereby giving the Bank more control over any rate increases. Nonetheless, interest expense could materially increase and have a material adverse effect on our financial condition and results of operations.

Liquidity contingency funding is highly concentrated.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). Access to funding through the FHLB is the largest component of the Bank's liquidity stress testing and contingency funding plans. The ability to access funding from FHLB may be critical if a funding need arises. However, there can be no assurance that the FHLB will be able to provide funding when needed, nor can there be assurance that the FHLB will provide funds to the Bank if its financial condition deteriorates. The inability to access FHLB funding, through a restriction on credit or the failure of the FHLB, could have a materially adverse effect on the Bank's liquidity management. The Bank also has funding available with the Federal Reserve Bank and believes it may be a more stable source of liquidity than the FHLB.

Unrealized losses in the Bank's investment portfolio could affect liquidity.

The Bank's access to liquidity sources could be affected by unrealized losses if investments must be sold at a loss, tangible capital ratios decline from an increase in unrealized losses or realized credit losses, the FHLB or other sources reduce capacity, or bank regulators impose restrictions on the Bank such as a limit on interest rates it may pay on deposits or its ability to access brokered deposits. Unrealized losses do not affect regulatory capital ratios.

The Corporation is subject to claims and litigation pertaining to fiduciary responsibility which may result in financial liability or reputation damage.

From time to time, customers make claims and take legal action pertaining to the Corporation's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Corporation's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Corporation, they may result in significant financial liability and/or adversely affect the market perception of the Corporation and its products and services, as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Corporation's business, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

Our business and financial results could be impacted materially by adverse results in legal proceedings.

The nature of the Corporation's business generates a certain amount of litigation involving matters arising in the ordinary course of business (and, in some cases, from the activities of companies we have acquired). These legal proceedings, whether founded or unfounded, could result in reputation damage and have an adverse effect on our financial condition and results of operation if they are not resolved in a manner favorable to the Corporation. Although we establish legal accruals for legal proceedings when information related to the loss contingencies represented by these matters indicates that both a loss is probable and that the amount of the loss can be reasonably estimated, we do not have accruals for all legal proceedings where we face a risk of loss. In addition, due to the inherent subjectivity of the assessments and unpredictability of outcomes of legal proceedings, any amounts that may be accrued or included in estimates of possible losses or ranges of possible losses may not represent the actual loss to the Corporation. We discuss these matters further in Part I Item 3 Legal Proceedings and in Note 21 Commitments and Contingencies in the Notes to Consolidated Financial Statements in Part II Item 8 of this Report.

Public health crises such as epidemics or pandemics could materially and adversely impact our business.

An epidemic or pandemic (such as COVID-19) may cause prolonged global, national, or regional recessionary economic conditions or longer lasting effects on economic conditions than currently exist, which could have a material adverse effect on our business, results of operations and financial condition.

As a result, the demand for our products and services may be significantly impacted, which could adversely affect our revenue and results of operations. Furthermore, the effects of an epidemic or pandemic could result in the recognition of credit losses in our loan portfolios and an increase in our allowance for credit losses, particularly if businesses are restricted or are required to close. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize impairments on the securities we hold as well as reductions in other comprehensive income. Our business operations may also be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. The extent to which an epidemic or pandemic impacts our business, results of operations, and financial conditions, as well as our regulatory capital and liquidity ratios, will depend on factors which are highly uncertain and cannot be predicted, including the scope and duration of an epidemic or pandemic and actions taken by governmental authorities and other third parties in response to the epidemic or pandemic.

The Corporation's operations could be affected by climate change.

The Corporation's business, as well as the operations and activities of our clients, could be negatively impacted by climate change. Climate change presents both immediate and long-term risks to the Corporation and its clients, and these risks are expected to increase over time. Climate change presents multi-faceted risks, including: operational risk from the physical effects of climate events on the Corporation and its clients' facilities and other assets; credit risk from borrowers with significant exposure to climate risk; transition risks associated with the transition to a less carbon-dependent economy; and reputational risk from stakeholder concerns about our practices related to climate change, the Corporation's carbon footprint, and the Corporation's business relationships with clients who operate in carbon-intensive industries.

Federal and state banking regulators and supervisory authorities, investors, and other stakeholders have increasingly viewed financial institutions as important in helping to address the risks related to climate change both directly and with respect to their clients, which may result in financial institutions coming under increased pressure regarding the disclosure and management of their climate risks and related lending and investment activities. Given that climate change could impose systemic risks upon the financial sector, either via disruptions in economic activity resulting from the physical impacts of climate change or changes in policies as the economy transitions to a less carbon-intensive environment, the Corporation may face regulatory risk of increasing focus on the Corporation's resilience to climate-related risks, including in the context of stress testing for various climate stress scenarios. Ongoing legislative or regulatory uncertainties and changes regarding climate risk management and practices may result in higher regulatory, compliance, credit, reputational risks and costs, and potentially affect customer relationships.

Severe weather, natural disasters, acts of war or terrorism, and other external events could negatively impact the Corporation's business.

The unpredictable nature of events such as severe weather, natural disasters, acts of war or terrorism, and other adverse external events could have a significant impact on the Corporation's ability to conduct business. If any of its financial, accounting, network or other information processing systems fail or have other significant shortcomings due to external events, the Corporation could be materially adversely affected. Third parties with which the Corporation does business could also be sources of operational risk to the Corporation, including the risk that the third parties' own network and information processing systems could fail. Any of these occurrences could materially diminish the Corporation's ability to operate one or more of its businesses, or result in potential liability to customers, reputational damage, and regulatory intervention, any of which could materially adversely affect the Corporation. Such events could affect the stability of the Corporation's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, impair the Corporation's liquidity, cause significant property damage, result in loss of revenue, and/or cause the Corporation to incur additional expenses.

The Corporation may be subject to disruptions or failures of the financial, accounting, network and/or other information processing systems arising from events that are wholly or partially beyond the Corporation's control, which may include, for example, computer viruses, electrical or telecommunications outages, natural disasters, disease epidemics or pandemics, damage to property or physical assets, or terrorist acts. While the Corporation believes its business continuity plan and efforts to evaluate the business continuity plans of critical third-party service providers help mitigate risks, disruptions or failures affecting any of these systems may cause interruptions in service to customers, damage to the Corporation's reputation, and loss or liability to the Corporation.

Negative developments affecting the banking industry, including bank failures or concerns regarding liquidity may have a material adverse effect on the Corporation.

In the recent past, the financial services industry has been impacted by bank failures and by financial instability at various banks. Bank failures and bank instabilities, and future bank failures and instabilities, have created and may continue to create market and other risks, for all financial institutions and banks, including the Corporation. These risks include, but are not limited to, market risk and loss of confidence in the financial services sector, and/or specific banks; deterioration of securities and loan portfolios; deposit volatility and reductions with higher volumes and occurring over shorter periods of time; increased liquidity demand and utilization of sources of liquidity; and interest rate volatility and abrupt, sudden and greater than usual rate changes.

These factors individually, or in any combination, could materially and adversely affect financial condition, operations and results thereof; and stock price. In addition, future bank failures and instabilities may result in an increase of FDIC deposit insurance premiums and/or result in special FDIC deposit insurance assessments, which also may adversely affect the Corporation's financial condition, operations, results thereof or stock price. The Corporation cannot predict the impact, timing or duration of such events.

Risk Factors Relating to the Common Stock

The stock market can be volatile, and fluctuations in our operating results and other factors could cause our stock price to decline.

The stock market has experienced, and may continue to experience, fluctuations that significantly impact the market prices of securities issued by many companies and financial institutions specifically. Market fluctuations could adversely affect our stock price. These fluctuations have often been unrelated or disproportionate to the operating performance of particular companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, loss of investor confidence, interest rate changes, government shutdowns, trade wars, pandemics or epidemics, or international currency fluctuations, may negatively affect the market price of our common stock. Moreover, our operating results may fluctuate and vary from period to period due to the risk factors set forth herein. As a result, period-to-period comparisons should not be relied upon as an indication of future performance. Our stock price could fluctuate significantly in response to our quarterly or annual results, annual projections and the impact of these risk factors on our operating results or financial position.

Although the Corporation's common stock is quoted on the Nasdaq Capital Market, the volume of trades on any given day has been limited historically, as a result of which shareholders might not have been able to sell or purchase the Corporation's common stock at the volume, price or time desired. From time to time, our Common Stock may be included in certain and various stock market indices. Inclusion in these indices may positively impacted the price, trading volume, and liquidity of our Common Stock, in part, because index funds or other institutional investors often purchase securities that are in these indices. Conversely, if our market capitalization falls below the minimum necessary to be included in any of the indices at any annual reconstitution date, the opposite could occur. Further, our inclusion in indices may be weighted based on the size of our market capitalization, so even if our market capitalization remains above the amount required to be included on these indices, if our market capitalization is below the amount it was on the most recent reconstitution date, our Common Stock could be weighted at a lower level. If our Common Stock is weighted at a lower level, holders attempting to track the composition of these indices will be required to sell our Common Stock to match the reweighting of the indices.

The Bank's ability to pay dividends to the Corporation is subject to regulatory limitations that may affect the Corporation's ability to pay dividends to its shareholders.

As a financial holding company, the Corporation is a separate legal entity from the Bank and does not have significant operations of its own. It currently depends upon the Bank's cash and liquidity to pay dividends to its shareholders. The Corporation cannot assure you that in the future the Bank will have the capacity to pay dividends to the Corporation. Various statutes and regulations limit the availability of dividends from the Bank. It is possible; depending upon the Bank's financial condition and other factors, that the Bank's regulators could assert that payment of dividends by the Bank to the Corporation would constitute an unsafe or unsound practice. In the event that the Bank is unable to pay dividends to the Corporation, the Corporation may not be able to pay dividends to its shareholders.

Pennsylvania Business Corporation Law and various anti-takeover provisions under the Corporation's articles of incorporation and bylaws could impede the takeover of the Corporation.

Various Pennsylvania laws affecting business corporations may have the effect of discouraging offers to acquire the Corporation, even if the acquisition would be advantageous to stockholders. In addition, the Corporation has various anti-takeover measures in place under its articles of incorporation and bylaws, including a supermajority vote requirement for mergers, a staggered Board of Directors, and the absence of cumulative voting. Any one or more of these measures may impede the takeover of the Corporation without the approval of the Board of Directors and may prevent stockholders from taking part in a transaction in which they could realize a premium over the current market price of the Corporation common stock.

Item 1B. Unresolved Staff Comments

None

Item 1C. Cybersecurity

The Corporation is exposed to a variety of cybersecurity risks that could adversely affect our operations, reputation, and financial results. Cybersecurity incidents, including data breaches, denial of service attacks, malware, ransomware, phishing, and other intrusions, could compromise the confidentiality, integrity, or availability of sensitive information and disrupt our systems. Such incidents could result in unauthorized access to customer or employee information, financial losses, regulatory penalties, and litigation.

Our dependence on technology to deliver banking services and manage our operations increases the potential impact of cybersecurity risks.

The Corporation has developed an information security program to protect the confidentiality, integrity, and availability of our data, information systems, and digital assets from disruption, breach, or theft. As a financial institution we store and protect nonpublic data related to customers, employees, and business operations. Securing this data at all times is critical to our business. The Corporation's information security program was developed to assess, identify, and monitor cybersecurity risks.

The cybersecurity framework utilized by the Corporation is based on recommendations from the National Institute of Standards and Technology (NIST), ISO/IEC 27001 & 27002, Federal Financial Institutions Examination Council (FFIEC), industry standards and best practices, and other applicable regulatory guidance. We maintain robust cybersecurity policies and procedures identify risks and mitigate where feasible. Policies and procedures address; vendor management and third-party risk, incident response, disaster recovery and business continuity, electronic banking, data classification and retention. The Corporation's information security program is led by the Chief Technology Officer (CTO) in conjunction with the Chief Risk Officer (CRO) having over 50 years of combined experience in financial services risk management, and information security. Their experience includes incident response, vendor management, disaster recovery and business continuity, breach mitigation as well as relevant professional certification. Along with the CTO and CRO, the Executive Enterprise Risk Management Committee (EERM)and the Board Enterprise Risk Management Committee (BERM) are responsible for oversight of the Corporation's cybersecurity and information security program and regularly reviews and evaluates information security and cybersecurity risks provided by management. Key risk indicators (KRIs) are regularly reported to the EERM Committee and BERM for review on a quarterly basis or as needed. The CRO provides updates to the Board of Directors multiple times a year and as needed. This includes facilitating training for the Board on cybersecurity risks and threats. The Board of Directors is also responsible for reviewing and approval policies critical to the information security program annually.

All employees participate in annual cybersecurity training courses conducted by the Training department with oversight from the CTO. Additional training exercises are administered throughout the year to increase cybersecurity awareness and address relevant risks.

The Corporation conducts periodic testing of software, hardware, defensive capabilities, and other information security systems utilizing both internal processes and third-party consultants. Testing procedures are supplemented by regular cyber threat exercises and employee training. Threat simulation exercises are used to develop and refine the Corporation's incident response plans. A defense-in-depth strategy is utilized to provide various layers of defense to identify and protect against risks to the Corporations network and computer systems. We utilize industry standards such as but not limited to; advanced firewall, content filtering, email gateway protections, endpoint detection and response software, and data loss prevention software.

Access to systems is granted on an as needed basis as it relates to the job functions of an individual. All access changes must be requested based on job function and approved by the appropriate departments. Changes are reviewed monthly, and all access rights to all significant systems are reviewed and verified annually.

The Corporation also addresses cyber risks posed by its relationships with third-party vendors. The Corporation assesses vendor risk as a part of its vendor management process, which requires a pre-acquisition diligence review, including the review of the vendor's information security policy for all vendors determined to be a "critical vendor". The vendor management process also requires a review of all critical vendors annually and all critical vendors are reported to the Board of Directors.

An incident response plan is in place to ensure swift and effective action in the event of a cybersecurity incident. The plan defines the Incident Response Team (IRT) which includes representatives from executive management, critical business lines, and communications. The plan outlines responsibilities of the IRT to meet in the event of an incident and ensure proper containment, investigation and forensic analysis, recovery procedures, and notifications are made within the parameters of all applicable laws and regulations. The IRT participate in testing of the plan at least annually through simulated cyberattack exercises. The Board of Directors reviews and approves the plan annually.

To date, risks from cybersecurity threats or incidents have not materially affected the Corporation. However, the sophistication of and risks from cybersecurity threats and incidents continues to increase, and the preventative actions the Corporation has taken and continues to take to reduce the risk of cybersecurity threats and incidents and protect its systems and information may not successfully protect against all cybersecurity threats and incidents. For more information on how cybersecurity risk could materially affect the Company's business strategy, results of operations, or financial condition, please refer to Item 1A Risk Factors.

Item 2. Properties

The Corporation's headquarters is located at 1500 Nitterhouse Drive, Chambersburg, Pennsylvania. This location also houses F&M Trust's sales and operations center. The Corporation owns or leases thirty-five properties in Franklin, Cumberland, Dauphin, Fulton and Huntingdon Counties, Pennsylvania; and Washington County, Maryland, for banking operations, as described below:

Property	Owned	Leased
Facilities used in Banking Operations	17	10
Remote ATM Sites	3	5

The Bank's properties are adequate for the purposes intended.

Item 3. Legal Proceedings

The nature of the Corporation's business generates a certain amount of litigation.

We establish accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and the amount of the loss can be reasonably estimated. When we are able to do so, we also determine estimates of possible losses, whether in excess of any accrued liability or where there is no accrued liability.

These assessments are based on our analysis of currently available information and are subject to significant judgment and a variety of assumptions and uncertainties. As new information is obtained, we may change our assessments and, as a result, take or adjust the amounts of our accruals and change our estimates of possible losses or ranges of possible losses. Due to the inherent subjectivity of the assessments and the unpredictability of outcomes of legal proceedings, any amounts that may be accrued or included in estimates of possible losses or ranges of possible losses may not represent the actual loss to the Corporation from any legal proceeding. Our exposure and ultimate losses may be higher, possibly significantly higher, than amounts we may accrue or amounts we may estimate.

In management's opinion, we do not anticipate, at the present time, that the ultimate aggregate liability, if any, arising out of all litigation to which the Corporation is a party will have a material adverse effect on our financial position. We cannot now determine, however, whether or not any claim asserted against us will have a material adverse effect on our results of operations in any future reporting period, which will depend on, amount other things, the amount of loss resulting from the claim and the amount of income otherwise reported for the reporting period. Thus, at December 31, 2024, we are unable to provide an evaluation of the likelihood of an unfavorable outcome or an estimate of the amount or range of potential loss with respect to such other matters and, accordingly, have not yet established any specific accrual for such other matters.

No material proceedings are pending or are known to be threatened or contemplated against us by governmental authorities.

In management's opinion, there are no other proceedings pending to which the Corporation is a party or to which its property is subject which, if determined adversely to the Corporation, would be material.

Item 4. Mine Safety Disclosures

Not Applicable

Part II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market and Shareholder Information

The Corporation's common stock trades on the Nasdaq Capital Market under the system FRAF. The Corporation had 1,493 shareholders of record as of December 31, 2024.

Restrictions on the Payment of Dividends

For limitations on the Corporation's ability to pay dividends, see "Supervision and Regulation – Regulatory Restrictions on Dividends" in Item 1 above.

Securities Authorized for Issuance under Equity Compensation Plans

The information related to equity compensation plans is incorporated by reference to the materials set forth under the heading "Executive Compensation – Compensation Tables" in the Corporation's Proxy Statement for the 2025 Annual Meeting of Shareholders.

Common Stock Repurchases

The Board of Directors, from time to time, authorizes the repurchase of the Corporation's $1.00 par value common stock. The repurchased shares will be held as Treasury shares available for issuance in connection with future stock dividends and stock splits, employee benefit plans, executive compensation plans, the Dividend Reinvestment Plan and other appropriate corporate purposes.

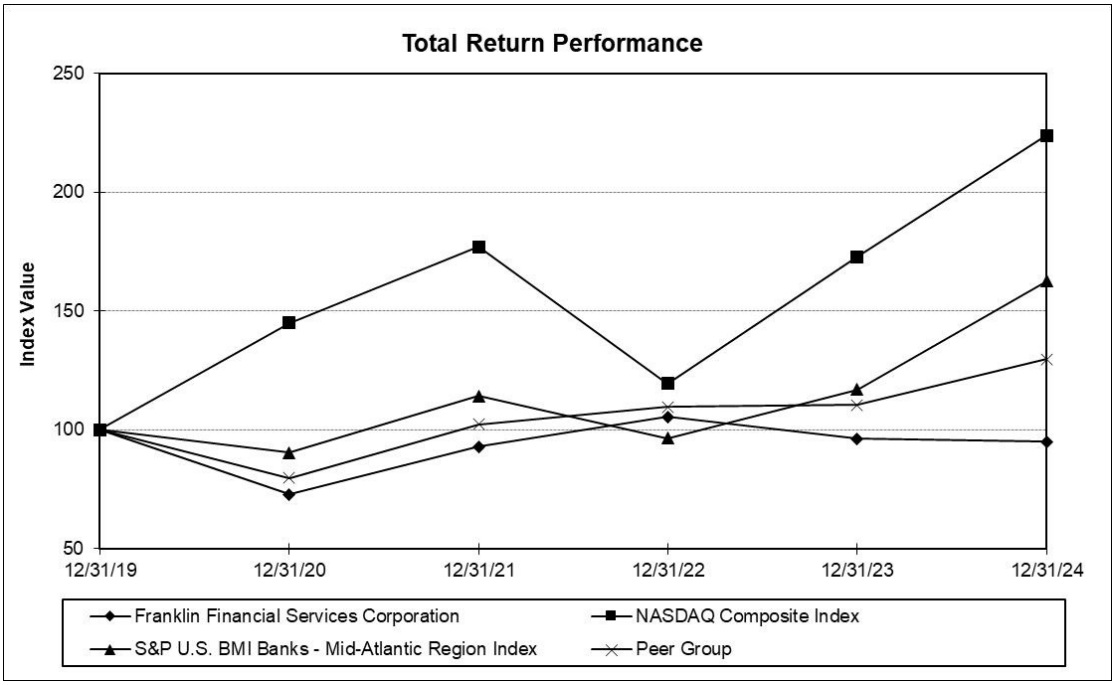
The following table shows stock repurchase activity under approved plans:

Period	Number of Shares Purchased as Part of Publicly Announced Program	Weighted Average Price Paid per Share	Dollar Amount of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares Yet To Be Purchased Under Program
October 2024	4,441	$ 30.05	$ 133,446	125,480
November 2024	—	$ —	$ —	125,480
December 2024	—	$ —	$ —	125,480
	4,441		$ 133,446	

The shares reported above were part of a repurchase plan that expired on December 31, 2024. In January 2025, an open market repurchase plan was approved to repurchase 150,000 shares through December 31, 2025.

Performance Graph

The following graph compares the cumulative total return to shareholders of Franklin Financial with selected market indices and a bank peer group, consisting of Mid-Atlantic Banks with assets between $1.5 billion - $2.5 billion as of September 30, 2024; for the five-year period ended December 31, 2024, in each case assuming an initial investment of $100 on December 31, 2019 and the reinvestment of all dividends. Information is provided by S&P Global Market Intelligence.



	Period Ending					
Index	**12/31/19**	**12/31/20**	**12/31/21**	**12/31/22**	**12/31/23**	**12/31/24**
Franklin Financial Services Corporation	$ 100.00	$ 72.91	$ 92.97	$ 105.52	$ 96.24	$ 94.90
NASDAQ Composite Index	$ 100.00	$ 144.92	$ 177.06	$ 119.45	$ 172.77	$ 223.87
S&P U.S. BMI Banks - Mid-Atlantic Region Index	$ 100.00	$ 90.39	$ 114.16	$ 96.42	$ 116.90	$ 162.46
Peer Group*	$ 100.00	$ 79.67	$ 102.20	$ 109.72	$ 110.45	$ 129.69

*Peer Group consists of Mid Atlantic Banks with Assets between $1.5B-$2.5B as of 9/30/2024

Shareholders' Information

Dividend Reinvestment Plan:

Franklin Financial Services Corporation offers a dividend reinvestment program whereby shareholders of the Corporation's common stock may reinvest their dividend, or make optional cash payment, to purchase additional shares of the Corporation. Beneficial owners of shares of the Corporation's common stock may participate in the program by making appropriate arrangements through their bank, broker or other nominee. Information concerning this optional program is available by contacting the Corporate Secretary at 717-264-6116, or:

Corporate Secretary
1500 Nitterhouse Drive, P.O. Box 6010
Chambersburg, PA 17201-6010

Dividend Direct Deposit Program:

Franklin Financial Services Corporation offers a dividend direct deposit program whereby shareholders of the Corporation's common stock may choose to have their dividends deposited directly into the bank account of their choice on the dividend payment date. Information concerning this optional program is available by contacting the Corporate Secretary at 717-264-6116, or:

Corporate Secretary
1500 Nitterhouse Drive, P.O. Box 6010
Chambersburg, PA 17201-6010

Annual Meeting:

The Annual Meeting of the shareholders of Franklin Financial Services Corporation will be held Tuesday, April 29, 2025 at 9:00 a.m. in a virtual meeting format only. Only shareholders will be granted access to the meeting as described in the Franklin Financial Services Corporation 2025 Proxy Statement.

Websites:

Franklin Financial Services Corporation: www.franklinfin.com
Farmers & Merchants Trust Company: www.fmtrust.bank

Stock Information:

The Corporation's common stock is traded on the Nasdaq Capital Market under the symbol "FRAF".

The registrar and transfer agent for Franklin Financial Services Corporation is:

Computershare
P.O. Box 30170
College Station, TX 77842-3170
1-800-368-5948

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

	Summary of Selected Financial Data as of and for the Year Ended December 31				
(Dollars in thousands, except per share)	**2024**	2023	2022	2021	2020
Balance Sheet Highlights					
Total assets	**$ 2,197,841**	$ 1,836,039	$ 1,699,579	$ 1,773,806	$ 1,535,038
Debt securities available for sale, at fair value	**508,604**	472,503	487,247	530,292	397,331
Loans, net	**1,380,424**	1,240,933	1,036,866	983,746	992,915
Deposits	**1,815,647**	1,537,978	1,551,448	1,584,359	1,354,573
Other borrowings	**200,000**	130,000	—	—	—
Shareholders' equity	**144,716**	132,136	114,197	157,065	145,176
Summary of Operations					
Interest income	**$ 101,451**	$ 76,762	$ 56,449	$ 47,573	$ 45,939
Interest expense	**43,937**	23,125	4,863	2,902	3,978
Net interest income	**57,514**	53,637	51,586	44,671	41,961
Provision for credit losses - loans	**1,975**	2,589	650	(2,100)	4,625
Provision for credit losses - unfunded commitments	**8**	135	—	—	—
Total provision for credit losses	**1,983**	2,724	650	(2,100)	4,625
Net interest income after provision for credit losses	**55,531**	50,913	50,936	46,771	37,336
Noninterest income	**13,679**	14,851	15,250	19,488	15,084
Noninterest expense	**55,895**	50,011	48,691	43,245	39,362
Income before income taxes	**13,315**	15,753	17,495	23,014	13,058
Income tax expense	**2,216**	2,155	2,557	3,398	258
Net income	**$ 11,099**	$ 13,598	$ 14,938	$ 19,616	$ 12,800
Performance Measurements					
Return on average assets	**0.54%**	0.78%	0.83%	1.17%	0.91%
Return on average equity	**8.05%**	11.39%	11.64%	13.20%	9.56%
Return on average tangible equity (1)	**8.62%**	12.32%	12.52%	14.05%	10.24%
Efficiency ratio (1)	**73.36%**	70.75%	71.21%	66.12%	67.32%
Net interest margin, fully tax equivalent	**2.95%**	3.31%	3.11%	2.88%	3.21%
Shareholders' Value (per common share)					
Diluted earnings per share	**$ 2.51**	$ 3.10	$ 3.36	$ 4.42	$ 2.93
Basic earnings per share	**2.52**	3.11	3.38	4.44	2.94
Regular cash dividends paid	**1.28**	1.28	1.28	1.25	1.2
Book value	**32.69**	30.23	26.01	35.36	33.07
Tangible book value (1)	**30.65**	28.17	23.96	33.34	31.02
Market value*	**29.90**	31.55	36.10	33.10	27.03
Market value/book value ratio	**91.47%**	104.37%	138.79%	93.61%	81.74%
Market value/tangible book value ratio	**97.54%**	112.01%	150.67%	99.29%	87.13%
Price/earnings multiple year-to-date	**11.91**	10.18	10.74	7.49	9.23
Dividend yield**	**4.28%**	4.06%	3.55%	3.87%	4.44%
Dividend payout ratio	**50.72%**	41.15%	37.88%	28.16%	40.83%
Safety and Soundness					
Average equity/average assets	**6.65%**	6.82%	7.17%	8.89%	9.48%
Risk-based capital ratio (Total)	**13.85%**	14.45%	17.21%	18.41%	17.69%
Leverage ratio (Tier 1)	**7.92%**	9.01%	8.95%	8.52%	8.69%
Common equity ratio (Tier 1)	**11.31%**	11.82%	14.22%	15.20%	14.32%
Nonperforming loans/gross loans	**0.02%**	0.01%	0.01%	0.74%	0.87%
Nonperforming assets/total assets	**0.01%**	0.01%	0.01%	0.42%	0.57%
Allowance for credit loss/loans	**1.26%**	1.28%	1.35%	1.51%	1.66%
Net loan (charge-offs) recoveries/average loans	**-0.03%**	-0.02%	-0.15%	0.04%	0.02%
Assets under Management					
Wealth Management Services (fair value)	**$ 1,169,282**	$ 1,094,747	$ 904,317	$ 946,964	$ 836,381
Held at third-party brokers (fair value)	**139,872**	135,423	116,398	118,046	112,624

(1) See the section titled "GAAP versus Non-GAAP Presentation" that follows.

* Based on the closing price of FRAF as quoted on the Nasdaq Capital Market for all years shown.

** Based on annualized 4th quarter dividend and year-end market value.

GAAP versus non-GAAP Presentations – The Corporation supplements its traditional GAAP measurements with certain non-GAAP measurements to evaluate its performance and to eliminate the effect of intangible assets. By eliminating intangible assets, the Corporation believes it presents a measurement that is comparable to companies that have no intangible assets or to companies that have eliminated intangible assets in similar calculations. However, not all companies may use the same calculation method for each measurement. The Efficiency Ratio measures the cost to generate one dollar of revenue. The non-GAAP measurements are not intended to be used as a substitute for the related GAAP measurements and should not be read in isolation or relied upon as a substitute for GAAP measures. The following table shows the calculation of the non-GAAP measurements.

(Dollars in thousands, except per share)	For the Year Ended December 31				
	2024	2023	2022	2021	2020
Return on Average Tangible Equity (non-GAAP)					
Net income	$ **11,099**	$ 13,598	$ 14,938	$ 19,616	$ 12,800
Average shareholders' equity	**137,840**	119,408	128,283	148,637	133,958
Less average intangible assets	**(9,016)**	(9,016)	(9,016)	(9,016)	(9,016)
Average shareholders' equity (non-GAAP)	**128,824**	110,392	119,267	139,621	124,942
Return on average tangible equity (non-GAAP)	**8.62%**	12.32%	12.52%	14.05%	10.24%
Tangible Book Value (per share) (non-GAAP)					
Shareholders' equity	$ **144,716**	$ 132,136	$ 114,197	$ 157,065	$ 145,176
Less intangible assets	**(9,016)**	(9,016)	(9,016)	(9,016)	(9,016)
Shareholders' equity (non-GAAP)	**135,700**	123,120	105,181	148,049	136,160
Shares outstanding (in thousands)	**4,427**	4,371	4,390	4,441	4,389
Tangible book value (non-GAAP)	**30.65**	28.17	23.96	33.34	31.02
Efficiency Ratio (non-GAAP)					
Noninterest expense	$ **55,895**	$ 50,011	$ 48,691	$ 43,245	$ 39,362
Net interest income	**57,514**	53,637	51,586	44,671	41,961
Plus tax equivalent adjustment to net interest income	**938**	1,094	1,381	1,466	1,407
Plus noninterest income, net of securities transactions	**17,737**	15,954	15,410	19,271	15,104
Total revenue	**76,189**	70,685	68,377	65,408	58,472
Efficiency ratio (non-GAAP)	**73.36%**	70.75%	71.21%	66.12%	67.32%

Forward-Looking Statements

Certain statements appearing herein which are not historical in nature are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements refer to a future period or periods, reflecting Management's current views as to likely future developments, and use words "may," "will," "expect," "believe," "estimate," "anticipate," or similar terms. Because forward-looking statements involve certain risks, uncertainties and other factors over which the Corporation has no direct control, actual results could differ materially from those contemplated in such statements. These factors include (but are not limited to) the following: general economic conditions, changes in interest rates, changes in the rate of inflation and product and service prices, change in the Corporation's cost of funds, changes in government monetary policy, changes in government regulation and taxation of financial institutions, effects of government shutdowns and budget negotiations, impacts of the interruption, degradation or breach in security of our information and technology systems or other technological risks and attacks, acts of war, terrorism or geopolitical instabilities, changes in accounting policies or practices, changes in technology, the intensification of competition within the Corporation's market area, and other similar factors.

We caution readers not to place undue reliance on these forward-looking statements. They only reflect Management's analysis as of this date. The Corporation does not revise or update these forward-looking statements to reflect events or changed circumstances. Please carefully review the risk factors described in other documents the Corporation files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

Application of Critical Accounting Policies:

Disclosure of the Corporation's significant accounting policies is included in Note 1 to the consolidated financial statements. These policies are particularly sensitive requiring significant judgments, estimates and assumptions to be made by Management.

Senior management has discussed the development of such estimates, and related Management Discussion and Analysis disclosure, with the Audit Committee of the Board of Directors.

The following accounting policy is identified by management to be critical to the results of operations: Allowance for Credit Losses (ACL).

Results of Operations:

Management's Overview

The following discussion and analysis is intended to assist the reader in reviewing the financial information presented and should be read in conjunction with the consolidated financial statements and other financial data presented elsewhere herein.

Summary

Franklin Financial Services Corporation reported consolidated earnings of $11.1 million ($2.51 per diluted share) for 2024 compared with $13.6 million ($3.10 per diluted share) for the same period in 2023.

- Year-to-date, net interest income was $57.5 million, an increase of 7.2% compared to $53.6 million for the same period in 2023. On a year-over-year comparison, the net interest margin was 2.95% for 2024 compared to 3.31% in 2023. The increase in the 2024 net interest margin was due primarily to a 0.46% increase in the yield on earning assets from 4.70% in 2023 to 5.16% in 2024 as all asset classes had higher yields in 2024. The cost of interest-bearing liabilities increased from 1.75% for 2023 to 2.68% for 2024. Likewise, the cost of all deposits increased from 1.23% in 2023 to 1.89% in 2024.

- Average earning assets for 2024 were $1.983 billion compared to $1.656 billion in 2023, an increase of 19.8%. In 2024, the average balance of interest-earning cash balances increased $125.6 million (248.9%) due to $200.0 million term loan borrowing not yet fully invested. The average balance of the investment portfolio increased $22.2 million (4.8%), while the average balance of the loan portfolio increased $179.2 million (15.7%), over the prior year averages. Within the loan portfolio, average commercial loan balances increased $118.7 million during the year and residential mortgages increased $52.5 million. Total deposits averaged $1.638 billion for 2024, an increase of $108.7 million (7.1%) from the average balance for 2023. All deposit categories reported a year-over-year decrease in average balances, except for money management and time deposits. On a year-over-year comparison, the yield on earning assets increased 46 basis points from 4.70% in 2023 to 5.16% for 2024, while the cost of interest-bearing liabilities increased 93 basis points from 1.75% to 2.68% over the same period.

- For 2024, the provision for credit losses on loans was $2.0 million compared to $2.6 million in 2023. The ACL ratio for loans was 1.26% on December 31, 2024, compared to 1.28% on December 31, 2023. For 2024, the provision for credit losses on unfunded commitments was $8 thousand compared to $135 thousand for 2023. The ACL for unfunded commitments was $2.0 million on December 31, 2024, unchanged from December 31, 2023.

- Noninterest income was $13.7 million compared to $14.9 million in 2023. The decrease was driven primarily by a loss of $3.4 million, net of tax loss, on the sale of securities as part of a portfolio restructuring in the fourth quarter of 2024, which was partially offset by increases in wealth management fees and debit card income.

- Noninterest expense was $55.9 million in 2024 compared to $50.0 million in 2023. The following categories contributed to the year-over-year increase: salaries and benefits increased $3.9 million (primarily due to a highly competitive labor market and health insurance), data processing expenses increased $1.0 million, and an $859 thousand increase in FDIC premiums.

- The effective federal income tax rate was 16.6% for 2024 compared to 13.7% in 2023, which included certain tax credits not recognized in 2024.

Total assets at December 31, 2024 were $2.198 billion compared to $1.836 billion at December 31, 2023, an increase of 19.7%. Significant balance sheet changes since December 31, 2023, include:

- Short-term interest-bearing deposits in other banks increased $180.1 million and the investment portfolio increased $36.1 million due to purchases made in the fourth quarter of 2024.

- The net loan portfolio increased $139.5 million (11.2%) over the year-end 2023 balance, primarily from increases in commercial real estate loans of $99.6 million and first lien 1-4 family residential real estate loans of $35.3 million.

- Deposits increased $277.7 million (18.1%) over year-end 2023 with increases in noninterest-bearing deposits of $17.3 million, money management deposits of $122.8 million and time deposits of $183.5 million, partially offset by a $36.6 million decrease in interest-bearing checking deposits.

- Total borrowings were $200.0 million from the Federal Home Loan Bank of Pittsburgh (FHLB).

- Shareholders' equity increased $12.6 million from December 31, 2023. Retained earnings increased $5.5 million net of dividends of $5.6 million paid to shareholders during 2024. The accumulated other comprehensive loss (AOCI) decreased from $40.9 million at year-end 2023 to $35.5 million from a decrease in the unrealized loss of the investment portfolio due in part to the realization of losses on the previously mentioned security sales. At December 31, 2024, the book value of the Corporation's common stock was $32.69 per share and tangible book value was $30.65 per share. In January 2025, an open market repurchase plan was approved to repurchase 150,000 shares through December 31, 2025. The Bank is considered to be well-capitalized under regulatory guidance as of December 31, 2024.

Other key performance measurements are presented elsewhere in Item 7 of this report.

A more detailed discussion of the areas that had the greatest effect on the reported results follows.

Net Interest Income

The most important source of the Corporation's earnings is net interest income, which is defined as the difference between income on interest-earning assets and the expense of interest-bearing liabilities supporting those assets. Principal categories of interest-earning assets are loans and securities, while deposits, short-term borrowings and long-term debt are the principal categories of interest-bearing liabilities. For the purpose of this discussion, balance sheet items refer to the average balance for the year and net interest income is adjusted to a fully taxable-equivalent basis. This tax-equivalent adjustment facilitates performance comparisons between taxable and tax-free assets by increasing the tax-free income by an amount equivalent to the Federal income taxes that would have been paid if this income were taxable at the Corporation's 21% Federal statutory rate. The components of net interest income are detailed in Tables 1, 2 and 3.

Table 1 shows the change in tax-equivalent net interest income year over year. Changes in interest income and expense are driven by changes in balance (volume) and changes in the average rate on interest-earning assets and interest-bearing liabilities. The changes attributable to rate or volume are shown in Table 2. The yield on earning assets (Table 3) increased to 5.16% for 2024 from 4.70% for 2023. The benefit provided by tax-exempt income was $938 thousand in 2024.

Table 1. Net Interest Income

			Change	
(Dollars in thousands)	**2024**	2023	**$**	**%**
Interest income	$ **101,451**	$ 76,762	$ **24,689**	**32.2**
Interest expense	**43,937**	23,125	**20,812**	**90.0**
Net interest income	**57,514**	53,637	**3,877**	**7.2**
Tax equivalent adjustment	**938**	1,094	**(156)**	**(14.3)**
Tax equivalent net interest income	$ **58,452**	$ 54,731	$ **3,721**	**6.8**

Table 2 identifies increases and decreases in tax equivalent net interest income due to either changes in average volume or to changes in average rates for interest-earning assets and interest-bearing liabilities. Numerous and simultaneous balance and rate changes occur during the year. The amount of change that is not due solely to volume or rate is allocated proportionally to both.

Table 2. Rate-Volume Analysis of Tax Equivalent Net Interest Income

Increase (Decrease) due to:	**2024 Compared to 2023 Increase (Decrease) due to:**			2023 Compared to 2022 Increase (Decrease) due to:		
(Dollars in thousands)	**Volume**	**Rate**	**Net**	Volume	Rate	Net
Interest earned on:						
Interest-earning deposits in other banks	**$ 6,567**	**$ 263**	**$ 6,830**	$ (2,571)	$ 2,495	$ (76)
Investment securities:						
Taxable	**973**	**1,308**	**2,281**	(434)	5,305	4,871
Nontaxable	**(96)**	**(105)**	**(201)**	(885)	(185)	(1,070)
Investment securities	**877**	**1,203**	**2,080**	(1,319)	5,120	3,801
Loans:						
Residential real estate 1-4 family:						
First liens	**2,406**	**1,124**	**3,530**	1,505	778	2,283
Junior liens and lines of credit	**224**	**361**	**585**	(19)	1,691	1,672
Residential real estate - construction	**470**	**181**	**651**	(30)	320	290
Commercial real estate	**6,746**	**3,025**	**9,771**	3,568	5,834	9,402
Commercial	**(75)**	**1,047**	**972**	65	2,483	2,548
Consumer	**91**	**23**	**114**	26	80	106
Loans	**9,862**	**5,761**	**15,623**	5,115	11,186	16,301
Total net change in interest income	**17,306**	**7,227**	**24,533**	1,225	18,801	20,026
Interest expense on:						
Interest checking	**(208)**	**762**	**554**	(155)	1,354	1,199
Money management	**1,525**	**3,456**	**4,981**	(90)	11,349	11,259
Savings	**(26)**	**16**	**(10)**	(9)	91	82
Time deposits	**3,571**	**1,629**	**5,200**	119	2,002	2,121
Brokered deposits	**1,340**	**(2)**	**1,338**	366	—	366
Deposits	**6,202**	**5,861**	**12,063**	231	14,796	15,027
Subordinate notes	**2**	**(3)**	**(1)**	2	2	4
Federal Reserve Bank borrowings	**(530)**	**118**	**(412)**	2,374	—	2,374
Federal Home Loan Bank advances	**9,390**	**(228)**	**9,162**	857	—	857
Total net change in interest expense	**15,064**	**5,748**	**20,812**	3,464	14,798	18,262
Change in tax equivalent net interest income	**$ 2,242**	**$ 1,479**	**$ 3,721**	$ (2,239)	$ 4,003	$ 1,764

The following table presents average balances, tax-equivalent (T/E) interest income, interest expense, and yields earned or rates paid on the assets or liabilities. Nonaccrual loans are included in the average loan balances.

Table 3. Analysis of Net Interest Income

(Dollars in thousands)	2024 Average balance	2024 Income or expense	2024 Average yield/rate	2023 Average balance	2023 Income or expense	2023 Average yield/rate
Interest-earning assets:						
Interest-earning deposits in other banks	$ 176,041	$ 9,237	5.25%	$ 50,451	$ 2,407	4.77%
Investment securities:						
Taxable	432,684	17,127	3.96%	406,937	14,846	3.65%
Tax exempt	50,868	1,322	2.60%	54,416	1,523	2.80%
Investment securities	483,552	18,449	3.82%	461,353	16,369	3.55%
Loans:						
Residential real estate 1-4 family:						
First liens	222,572	11,442	5.14%	173,986	7,912	4.55%
Junior liens and lines of credit	76,515	4,635	6.06%	72,623	4,050	5.58%
Residential real estate - construction	28,096	1,954	6.95%	21,124	1,303	6.17%
Commercial real estate	747,037	42,975	5.75%	626,817	33,204	5.30%
Commercial	241,554	13,052	5.40%	243,045	12,080	4.97%
Consumer	7,322	645	8.81%	6,285	531	8.45%
Loans	1,323,096	74,703	5.65%	1,143,880	59,080	5.16%
Total interest-earning assets	1,982,689	$ 102,389	5.16%	1,655,684	$ 77,856	4.70%
Other assets	91,137			95,489		
Total assets	$ 2,073,826			$ 1,751,173		
Interest-bearing liabilities:						
Deposits:						
Interest checking	$ 416,770	$ 2,632	0.63%	$ 459,447	$ 2,078	0.45%
Money Management	627,163	18,782	2.99%	568,521	13,801	2.43%
Savings	101,335	173	0.17%	117,026	183	0.16%
Time	177,281	7,615	4.30%	84,428	2,415	2.86%
Brokered	33,183	1,704	5.14%	7,084	366	5.17%
Total interest-bearing deposits	1,355,732	30,906	2.28%	1,236,506	18,843	1.52%
Subordinate notes	19,680	1,050	5.34%	19,642	1,051	5.35%
Federal Reserve Bank borrowings	41,667	1,962	4.71%	53,041	2,374	4.48%
Federal Home Loan Bank advances	219,883	10,019	4.56%	14,704	857	5.83%
Total interest-bearing liabilities	1,636,962	43,937	2.68%	1,323,893	23,125	1.75%
Noninterest-bearing deposits	282,460			293,001		
Other liabilities	16,564			14,871		
Shareholders' equity	137,840			119,408		
Total liabilities and shareholders' equity	$ 2,073,826			$ 1,751,173		
T/E net interest income/Net interest margin		58,452	2.95%		54,731	3.31%
Tax equivalent adjustment		(938)			(1,094)	
Net interest income		$ 57,514			$ 53,637	
Net Interest Spread			2.48%			2.95%
Cost of Funds			2.29%			1.43%
Cost of Deposits			1.89%			1.23%

Provision for Credit Losses

In 2024, the Bank recorded gross loan charge-offs of $560 thousand, which were partially offset by $186 thousand of recoveries, resulting in net loan charge-offs of $374 thousand. For 2024, the Corporation recorded $2.0 million as a provision for credit loss on loans. These changes resulted in an increase in the allowance for credit losses (ACL) on loans to $17.7 million at year-end 2024 (1.26% of total loans), compared to $16.1 million at year-end 2023 (1.28% of total loans). The provision for credit losses for unfunded commitments was $8 thousand for 2024 with reserve balance of $2.0 million at year-end 2024, unchanged from year-end 2023. Management closely monitors the credit quality of the portfolio in order to ensure that an appropriate ACL is maintained. As part of this process, Management performs a comprehensive analysis of the loan portfolio considering delinquencies trends and events, current economic forecasts and conditions, and other relevant factors to determine the adequacy of the allowance for credit losses and the provision for credit losses. For more information, refer to the Loan Quality discussion and Table 10.

Noninterest Income

The following table presents a comparison of noninterest income for the years ended December 31, 2024 and 2023:

Table 4. Noninterest Income

			Change	
(Dollars in thousands)	**2024**	2023	Amount	%
Noninterest Income				
Wealth management fees	**$ 8,538**	$ 7,512	$ 1,026	13.7
Loan service charges	**987**	811	176	21.7
Gain on sale of loans	**565**	199	366	183.9
Deposit service charges and fees	**2,448**	2,492	(44)	(1.8)
Other service charges and fees	**2,040**	1,852	188	10.2
Debit card income	**2,279**	2,157	122	5.7
Increase in cash surrender value of life insurance	**457**	448	9	2.0
Net (losses) gains on sales of debt securities	**(4,267)**	(1,119)	(3,148)	281.3
Change in fair value of equity securities	**209**	16	193	1,206.3
Other	**423**	483	(60)	(12.4)
Total	**$ 13,679**	$ 14,851	$ (1,172)	(7.9)

The most significant changes in noninterest income are discussed below:

Wealth management fees: These fees are comprised of asset management fees, estate administration and settlement fees, employee benefit plans, and commissions from the sale of insurance and investment products. Asset management fees are recurring in nature and are affected by the fair value of assets under management at the time the fees are recognized. Asset management fees totaled $7.8 million for 2024 and $6.9 million for 2023. The fair value of trust assets under management was $1.169 billion at year-end, compared to $1.095 billion at the end of 2023. Estate fees were $508 thousand in 2024 compared to $295 thousand in 2023. By the nature of an estate settlement, these fees are considered nonrecurring. Commissions from the sale of insurance and investment products decreased by $58 thousand compared to 2023.

Loan service charges: This category includes primarily commercial letter of credit fees, commercial loan prepayment penalties, mortgage servicing fees and consumer debt protection fees.

Gain on sale of loans: This category is comprised of fees from the sale of residential mortgages with servicing released in the secondary market. Due to higher origination volume, the Bank sold more loans in 2024 compared to 2023.

Deposit fees: This category is comprised primarily of fees from overdrafts, an overdraft protection program, service charges, and account analysis fees. The decrease of $44 thousand in this category was due to a lower volume of overdraft fees.

Other service charges and fees: The most significant items in this category include fees from the Bank's merchant card program and ATM fees. ATM fees increased $184 thousand.

Debit card income: Debit card fees are comprised of both a retail and business card program. Retail fees increased by $93 thousand, while business card fees increased $29 thousand. The business debit card offers a cash back rewards program based on usage, while the retail debit card offers reward points based on usage. Debit card income is reported net of reward program expense.

Net (losses) gains on sales of debt securities: The Bank took losses of $4.3 million on the sale of investment securities as part of a portfolio restructuring during the fourth quarter of 2024. The event is more thoroughly described on a Form 8-K previously filed by the Corporation on October 18, 2024.

Noninterest Expense

The following table presents a comparison of noninterest expense for the years ended December 31, 2024 and 2023:

Table 5. Noninterest Expense

(Dollars in thousands)			Change	
Noninterest Expense	**2024**	2023	Amount	%
Salaries and benefits	**$ 32,752**	$ 28,813	$ 3,939	13.7
Net occupancy	**4,583**	4,398	185	4.2
Marketing and advertising	**1,891**	2,071	(180)	(8.7)
Legal and professional	**2,133**	2,301	(168)	(7.3)
Data processing	**5,804**	4,792	1,012	21.1
Pennsylvania bank shares tax	**483**	745	(262)	(35.2)
FDIC insurance	**1,710**	851	859	100.9
ATM/debit card processing	**1,300**	1,235	65	5.3
Telecommunications	**435**	405	30	7.4
Nonservice pension	**(51)**	(117)	66	(56.4)
Lease termination	**—**	495	(495)	—
Other	**4,855**	4,022	833	20.7
Total	**$ 55,895**	$ 50,011	$ 5,884	11.8

The most significant changes in noninterest expense are discussed below:

Salaries and benefits: This category is the largest noninterest expense category and includes expenses for salaries, health benefits, insurance, pension service, employment taxes and other employee benefit programs. This category increased by $3.9 million compared to the prior year from: salary and commission increases of $2.1 million due to merit and annual increases, and new positions, health insurance increases of $703 thousand, incentive compensation plan increase of $532 thousand, stock compensation expense of $151 thousand and 401K match increase of $125 thousand. See Note 17 of the accompanying consolidated financial statements for additional information on benefit plans.

Net Occupancy: This category includes all of the expense associated with the properties and facilities used for bank operations such as depreciation, leases, maintenance, utilities and real estate taxes. The increase in 2024 was partially due to a new community office in Linglestown, Dauphin County, which opened in the fall of 2024.

Legal and professional fees: This category consists of fees paid to outside legal counsel, consultants, and audit fees.

Data processing: The largest cost in this category is the expense associated with the Bank's core processing system and related services and accounted for $2.2 million of the total data processing costs in 2024 and $2.0 million in 2023. The increase in 2024 was due primarily to increases in software expenses.

Nonservice pension: The change in the nonservice pension expense was due to higher asset returns and amortization.

Lease Termination: The lease termination in 2023 was for a long-term land lease held for a new community office that will not be constructed.

Other: The largest increases in this category were in armored car expense ($100 thousand) due to additional services and amortization of solar tax credits ($235 thousand). All other increases are due primarily to overall higher operating expenses.

Provision for Income Taxes

In 2024, the Corporation recorded a Federal income tax expense of $2.0 million compared to $2.2 million in 2023. The effective tax rate was 16.6% for 2024 and 13.7% for 2023, which reflects the benefit of $367 thousand in tax credits recorded during 2023. Without the tax credits, the Bank's effective tax rate would have been 16.0% in 2023. The Corporation's 2024 and 2023 effective tax rate was lower than its statutory rate due to the effect of tax-exempt income from certain investment securities, loans, and bank owned life insurance. For a more comprehensive analysis of Federal income tax expense refer to Note 14 of the accompanying consolidated financial statements.

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Financial Condition

One method of evaluating the Corporation's condition is in terms of its sources and uses of funds. Assets represent uses of funds while liabilities represent sources of funds. At December 31, 2024, total assets increased 19.7% over the prior year to $2.198 billion from $1.836 billion at the end of 2023.

Interest Earning Deposits in Other Banks:

Short-term interest-earning deposits, held primarily at the Federal Reserve, increased to $183.8 million at December 31, 2024 from $3.6 million at December 31, 2023, due to a new FHLB term borrowing of $200.0 million in 2024 which was not fully deployed during 2024. Long-term interest-earning deposits decreased from $6.2 million at December 31, 2023 to $1.5 million at December 31, 2024. The average balance of interest-earning deposits increased to $176.0 million in 2024 compared to $50.5 million in 2023.

Investment Securities:

AFS Securities

The investment portfolio serves as a mechanism to invest funds if funding sources out pace lending activity, to provide liquidity for lending and operations, and provide collateral for deposits and borrowings. The mix of securities and investing decisions are made as a component of balance sheet management. Debt securities include U.S. Government Agencies, U.S. Government Agency mortgage-backed securities, non-agency mortgage-backed securities, state and municipal government bonds, and corporate debt primarily in the form of bank-issued subordinated debt. The weighted average life of the portfolio is 5.6 years, the effective duration (which measures the change in fair value for a 1% change in interest rates) is 4.8%, and $177.9 million (fair value) is pledged as collateral for deposits. The Bank has no investments in a single issuer that exceeds 10% of shareholders equity, except for U.S. Treasuries. All securities are classified as available for sale and all investment balances refer to fair value, unless noted otherwise. The following table presents the amortized cost and estimated fair value of investment securities by type at December 31 for the past two years:

Table 6. Investment Securities at Amortized Cost and Estimated Fair Value

	2024		2023	
(Dollars in thousands)	**Amortized Cost**	**Fair value**	Amortized Cost	Fair value
U.S. Treasury	$ **36,192**	$ **31,797**	$ 83,494	$ 74,091
Municipal	**156,528**	**133,592**	161,339	138,618
Corporate	**26,356**	**24,224**	26,336	23,198
Agency mortgage & asset-backed	**180,423**	**169,821**	142,565	132,591
Non-agency mortgage & asset-backed	**154,554**	**149,170**	108,185	104,005
Total	$ **554,053**	$ **508,604**	$ 521,919	$ 472,503

The following table presents AFS investment securities at December 31, 2024 by maturity, and the weighted average yield for each maturity presented. Actual maturities may differ from contractual maturities because of prepayment or call options embedded in the securities. The yields presented in this table are calculated using tax-equivalent interest and the amortized cost.

Table 7. Maturity Distribution of Investment Portfolio

	One year or less		After one year through five years		After five years through ten years		After ten years		Total	
(Dollars in thousands)	**Fair Value**	**Yield**	**Fair Value**	**Yield**	**Fair Value**	**Yield**	**Fair Value**	**Yield**	**Fair Value**	**Yield**
Available for Sale										
U.S. Treasury	$ —	—	$ **24,327**	**1.23%**	$ **7,470**	**1.57%**	$ —	—	$ **31,797**	**1.31%**
Municipal	—	—	**9,522**	**2.21%**	**49,188**	**2.29%**	**74,882**	**2.09%**	**133,592**	**2.17%**
Corporate	—	—	**4,166**	**5.99%**	**19,197**	**4.77%**	**861**	**4.28%**	**24,224**	**4.95%**
Agency mortgage & asset-backed	**109**	**2.25%**	**20,158**	**1.81%**	**16,424**	**2.61%**	**133,131**	**4.43%**	**169,822**	**3.92%**
Non-agency mortgage & asset-backed	**6,026**	**6.64%**	**9,108**	**5.87%**	—	—	**134,036**	**4.97%**	**149,170**	**5.09%**
Total	$ **6,135**	**6.57%**	$ **67,281**	**2.40%**	$ **92,279**	**2.78%**	$ **342,910**	**4.07%**	$ **508,605**	**3.63%**

Table 3, previously presented, shows the two-year trend of average balances and yields on the investment portfolio. The tax-equivalent yield on the portfolio increased from 3.55% in 2023 to 3.82% in 2024. U.S. Agency mortgage-backed securities and non-agency mortgage-backed securities comprise the largest sectors by fair value of the portfolio, approximately 33% and 29%

respectively. The Bank expects that the portfolio will continue to remain concentrated in these investment sectors. The portfolio returned $97.3 million of principal cash flow in 2024 while $136.3 million was invested into the portfolio during the year.

Municipal Bonds: This sector holds $133.6 million or 26% of the total portfolio and the amortized cost decreased by $4.8 million year over year. The Bank's municipal bond portfolio is well diversified geographically and is comprised of both tax-exempt (35% of the portfolio) and taxable (65% of the portfolio) municipal bonds. Sixty-eight percent of the portfolio are general obligation bonds and thirty-two percent are revenue bonds. The portfolio holds bonds from 151 issuers within 34 states. The largest dollar exposures are in the states of Texas (16%), California (13%) and Pennsylvania (13%). When purchasing municipal bonds, the Bank looks primarily to the underlying credit of the issuer as a sign of credit quality and then to any credit enhancement. The entire portfolio is rated "A" or higher by a nationally recognized statistical rating organization.

Corporate Bonds: This sector is comprised primarily of $20.1 million of subordinate debt from 44 different community bank issuers.

Agency Mortgage & Asset-backed Securities (MBS): This sector holds $169.8 million, or 33%, of the total portfolio. This sector is comprised of bonds issued and guaranteed by the U.S. Government, a U.S. Government Agency, or a government sponsored entity securitized by pools of residential mortgages and other loan assets.

Non-Agency Mortgage & Asset-backed Securities (ABS): This sector holds $149.2 million, or 29%, of the total portfolio. This sector is comprised of senior private label first-lien commercial and residential mortgages. As senior position bonds, they benefit from credit support in the form of junior tranches and reserve funds that absorb loss prior to the senior bonds. This sector has $132.6 million of its fair value rated investment grade by a nationally recognized statistical rating organizations while $16.6 million of its fair value is nonrated.

Allowance for Credit Losses: For securities with an unrealized loss, the Bank considers: (1) the extent to which the fair value is less than amortized cost; (2) adverse conditions specifically related to the security, industry or geographic area; (3) the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future; (4) failure of the issuer of the security to make scheduled interest or principal payments; and (5) any changes to the rating of the security by a rating agency. In addition, the Bank considers whether it intends to sell these securities or whether it will be forced to sell these securities before the earlier of amortized cost recovery or maturity. The Bank does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost. The debt securities in a loss position and subject to evaluation at December 31, 2024 and 2023, were determined not to be attributable to credit related factors; therefore, the Bank does not have an allowance for credit loss for these investments. During 2024, $42.4 million of securities were sold as part of a portfolio restructuring to take advantage of higher market interest rates. The realized pre-tax loss on these sales was $4.3 million.

Equity Securities at Fair Value

The Corporation owns one equity investment with a readily determinable fair value. At December 31, 2024, this investment was reported at fair value ($166 thousand) with changes in value reported through income in 2024.

Restricted Stock at Cost

The Bank held $8.8 million of restricted stock at the end of 2024 of which all but $30 thousand is stock in the FHLB, carried at a cost of $100 per share. FHLB stock is evaluated for impairment primarily based on an assessment of the ultimate recoverability of its cost. As a government sponsored entity, FHLB has the ability to raise funding through the U.S. Treasury that can be used to support its operations. There is not a public market for FHLB stock and the benefits of FHLB membership (e.g., liquidity and low-cost funding) add value to the stock beyond purely financial measures. If FHLB stock were deemed to be impaired, the write-down for the Bank could be significant. Management intends to remain a member of the FHLB and believes that it will be able to fully recover the cost basis of this investment.

Loans:

The loan portfolio increased by 11.2% ($141.1 million) in 2024, due primarily to an increase of $99.6 million in commercial real estate loans and $35.3 million in residential real estate 1-4 family loans. Average gross loans for 2024 increased by $179.2 million to $1.323 billion. Commercial real estate, mortgage and consumer loans showed an increase in average balances during the year, which was partially offset by a decline in commercial loans during the year. The yield on the portfolio increased in 2024 to 5.65% from 5.16% in 2023. Table 3, previously presented, shows the average balances and yields earned on loans for the past two years.

The following table shows loans outstanding, by class, as of December 31 for the past 2 years.

Table 8. Loan Portfolio

(Dollars in thousands)	**2024**	2023	Change Amount	Change %
Residential real estate 1-4 family				
Consumer first lien	$ **181,780**	$ 142,017	$ 39,763	28.0
Commercial first lien	**58,821**	63,271	(4,450)	(7.0)
Total first liens	**240,601**	205,288	35,313	17.2
Consumer junior lien and lines of credit	**76,035**	68,752	7,283	10.6
Commercial junior liens and lines of credit	**6,199**	3,809	2,390	62.7
Total junior liens and lines of credit	**82,234**	72,561	9,673	13.3
Total residential real estate 1-4 family	**322,835**	277,849	44,986	16.2
Residential real estate construction				
Consumer	**20,742**	13,837	6,905	49.9
Commercial	**11,685**	12,063	(378)	(3.1)
Total residential real estate construction	**32,427**	25,900	6,527	25.2
Commercial real estate	**803,365**	703,767	99,598	14.2
Commercial	**230,597**	242,654	(12,057)	(5.0)
Total commercial	**1,033,962**	946,421	87,541	9.2
Consumer	**8,853**	6,815	2,038	29.9
Total loans	**1,398,077**	1,256,985	141,092	11.2
Less: Allowance for credit losses	**(17,653)**	(16,052)	(1,601)	10.0
Net loans	$ **1,380,424**	$ 1,240,933	$ 139,491	11.2

Residential real estate: This category is comprised of first lien loans and, to a lesser extent, junior liens and lines of credit secured by residential real estate, as well as loans made to individuals secured by unimproved noncommercial real estate. Total residential real estate loans increased $45.0 million in 2024, primarily in consumer first lien loans. In 2024, the Bank originated $123.1 million in mortgages compared to $92.4 million in 2023, including approximately $43.1 million for sale in the secondary market. The Bank does not originate or hold any loans that would be considered sub-prime or Alt-A and does not generally originate mortgages outside of its primary market area.

Commercial purpose loans in this category represent loans made for various business needs but are secured with residential real estate. In addition to the real estate collateral, it is possible that additional security is provided by personal guarantees or UCC filings. These loans are underwritten as commercial loans and are not originated to be sold.

Residential real estate construction: The largest component of this category, $20.7 million, represents loans for individuals to construct personal residences, while loans to residential real estate developers and home builders totaled $11.7 million at December 31, 2024. The Bank's exposure to residential construction loans is concentrated primarily in south central Pennsylvania. Real estate construction loans, including residential real estate and land development loans, occasionally provide an interest reserve in order to assist the developer during the development stage when minimal cash flow is generated.

Commercial real estate (CRE): This category includes commercial, industrial, and farm loans, where real estate serves as the primary collateral for the loan. This loan category increased by $99.6 million over the prior year. The three largest growth sectors by collateral in 2024 were apartment buildings, hotels & motels, and office buildings which totaled $49.1 million. Included in commercial real estate are approximately $615.0 million of nonowner occupied loans located in the Bank's market area of south-central Pennsylvania.

The following table presents the largest sectors by collateral in the commercial real estate category:

(Dollars in thousands)	December 31, 2024		December 31, 2023	
Commercial Real Estate (CRE) Sectors	**Amount**	**% of CRE**	Amount	% of CRE
Apartment buildings	**$** 146,661	18%	**$** 120,180	17%
Hotels & motels	97,460	12%	80,670	11%
Office buildings	92,926	12%	87,137	12%
Shopping centers	82,518	10%	68,478	10%
Development land	66,645	8%	62,439	9%

Also included in CRE are real estate construction loans totaling $207.1 million. At December 31, 2024, the Bank had $71.9 million in real estate construction loans funded with an interest reserve and capitalized $3.2 million of interest in 2024 from these reserves on active projects for commercial construction. Real estate construction loans are monitored on a regular basis by either an independent third-party inspector or the assigned loan officer depending on loan amount or complexity of the project. This monitoring process includes, at a minimum, the submission of invoices or AIA documents (depending on the complexity of the project) detailing costs incurred by the borrower, on-site inspections, and a signature by the assigned loan officer for disbursement of funds. All real estate construction loans are underwritten in the same manner, regardless of the use of an interest reserve.

Commercial: This category includes commercial, industrial, farm, agricultural, and tax-free loans. Collateral for these loans may include business assets or equipment, personal guarantees, or other non-real estate collateral. Commercial loans decreased $12.1 million over the 2023 ending balance. At December 31, 2024, the Bank had approximately $105 million of tax-free loans in its portfolio. This category also includes $7 thousand of PPP loans that are 100% guaranteed by the SBA, compared to $57 thousand at December 31, 2023.

The following table presents the largest sectors by industry in the commercial category:

(Dollars in thousands)	December 31, 2024		December 31, 2023	
Commercial	**Amount**	**% of Commercial**	Amount	% of Commercial
Public administration	**$** 43,184	19%	**$** 44,717	18%
Utilities	38,498	17%	41,961	17%
Real estate, rental & leasing	23,162	10%	25,016	10%
Retail trade	18,267	8%	18,589	8%
Manufacturing	16,930	7%	17,254	7%

Participations: At December 31, 2024, the outstanding commercial participations were $107.2 million (9.6% of commercial purpose loans and 7.7% of total gross loans), compared to $97.8 million (9.5% of commercial purpose loans and 7.8% of total gross loans) at the prior year-end. The Bank's total exposure (including unfunded commitments) to purchased participations was $133.1 million at December 31, 2024 and $135.4 million at December 31, 2023. The loan participations are comprised of $28.4 million of commercial loans and $78.8 million of CRE loans, reported in the respective loan segment.

Consumer loans: This category is comprised of installment loans and personal lines of credit and increased $2.0 thousand in 2024 over 2023 ending balances.

Table 9. Maturities and Interest Rate Terms of Selected Loans

The following table presents the stated maturities (or earlier call dates) of selected loans as of December 31, 2024.

(Dollars in thousands)	Less than 1 year	1-5 years	5-15 years	Over 15 years	Total
Loans:					
Residential real estate 1-4 family					
Fixed rate	$ 3,644	$ 8,405	$ 38,646	$ 19,435	$ 70,130
Variable rate	9,152	8,339	55,757	179,457	252,705
	12,796	16,744	94,403	198,892	322,835
Residential real estate construction					
Fixed rate	255	—	27	19,923	20,205
Variable rate	7,611	3,131	944	536	12,222
	7,866	3,131	971	20,459	32,427
Commercial real estate					
Fixed rate	12,251	69,301	71,638	—	153,190
Variable rate	43,216	154,764	398,156	54,039	650,175
	55,467	224,065	469,794	54,039	803,365
Commercial					
Fixed rate	2,670	33,873	50,795	—	87,338
Variable rate	49,119	15,088	37,674	41,378	143,259
	51,789	48,961	88,469	41,378	230,597
Consumer					
Fixed rate	105	3,080	630	1,501	5,316
Variable rate	771	1,347	1,419	—	3,537
	876	4,427	2,049	1,501	8,853
	$ 128,794	$ 297,328	$ 655,686	$ 316,269	$ 1,398,077

Loan Quality:

Management utilizes a risk rating scale ranging from 1-Prime to 9-Loss to evaluate loan quality. This risk rating scale is used primarily for commercial purpose loans. Consumer purpose loans are identified as either a pass or substandard rating based on the performance status of the loans. Substandard consumer loans are loans that are 90 days or more past due and still accruing. Loans rated 1 – 4 are considered pass credits. Loans that are rated 5-Pass Watch are credits that have been identified as credits that are likely to warrant additional attention and monitoring. Loans rated 6-Other Asset Especially Mentioned (OAEM) or worse begin to receive enhanced monitoring and reporting by the Bank. Loans rated 7-Substandard or 8-Doubtful exhibit the greatest financial weakness and present the greatest possible risk of loss to the Bank. Nonaccrual loans are rated no better than 7-Substandard. The following represent some of the factors used in determining the risk rating of a borrower: cash flow, debt coverage, liquidity, management, and collateral. Risk ratings, for pass credits, are generally reviewed annually for term debt and at renewal for revolving or renewing debt. The Bank monitors overall loan quality of the portfolio by reviewing three primary measurements: (1) loans rated 6-OAEM or worse (collectively "watch list"), (2) delinquent loans, and (3) net-charge-offs.

Watch list loans exhibit financial weaknesses that increase the potential risk of default or loss to the Bank. However, inclusion on the watch list, does not by itself, mean a loss is certain. The watch list includes both performing and nonperforming loans. Watch list loans totaled $21.5 million at year-end compared to $17.2 million one year earlier. Included in the watch list are $266 thousand of nonaccrual loans at year-end 2024, compared to $147 thousand at year-end 2023. The composition of the watch list (loans rated 6, 7 or 8), by primary collateral, is shown in Note 6 of the accompanying financial statements.

Delinquent loans are a result of borrowers' cash flow and/or alternative sources of cash being insufficient to repay loans. The Bank's likelihood of collateral liquidation to repay the loans becomes more probable the further behind a borrower falls, particularly when loans reach 90 days or more past due. Management monitors the performance status of loans by the use of an aging report. The aging report can provide an early indicator of loans that may become severely delinquent and possibly result in a loss to the Bank. See Note 6 in the accompanying financial statements for information on the aging of payments in the loan portfolio.

Nonaccruing loans generally represent Management's determination that the borrower will be unable to repay the loan in accordance with its contractual terms and that collateral liquidation may or may not fully repay both interest and principal. It is the Bank's policy to evaluate the probable collectability of principal and interest due under terms of loan contracts for all loans 90-days or

more, nonaccrual loans, or impaired loans. Further, it is the Bank's policy to discontinue accruing interest on loans that are not adequately secured and in the process of collection. Upon determination of nonaccrual status, the Bank subtracts any current year accrued and unpaid interest from its income, and any prior year accrued and unpaid interest from the allowance for loan losses. Management continually monitors the status of nonperforming loans, the value of any collateral and potential for risk of loss. Nonaccrual loans are rated no better than 7-Substandard.

The Bank's Loan Management Committee reviews these loans and risk ratings on a quarterly basis in order to proactively identify and manage problem loans. In addition, a committee meets monthly to discuss possible workout strategies for all credits rated 7-Substandard or worse. Management also tracks other commercial loan risk measurements including high loan to value loans, concentrations, participations and policy exceptions and reports these to the Board Enterprise Risk Management Committee of the Board of Directors. The Bank also uses an external loan review consultant to assist with internal loan review with a goal of reviewing up to 80% of commercial loans each year. The FDIC defines certain supervisory loan-to-value lending limits. The Bank's internal loan–to-value limits are all equal to or have a lower loan-to-value limit than the supervisory limits. However, in certain instances, the Bank may make a loan that exceeds the supervisory loan-to-value limit. At December 31, 2024, the Bank had loans of $14.1 million (1.0% of gross loans) that exceeded the supervisory loan-to value limit, compared to 1.1% at the prior year end.

Loan quality, as measured by nonaccrual loans, totaled $266 thousand at December 31, 2024 compared to $147 thousand at December 31, 2023 and the nonperforming loan to total loans ratio was 0.02% at December 31, 2024 compared to 0.01% at December 31, 2023. Loans past due 90-days or more, but still accruing, totaled $2 thousand at December 31, 2024 compared to $5 thousand at the prior year end.

In addition to monitoring nonaccrual loans, the Bank also closely monitors loans to borrowers experiencing financial difficulty when, based on current information and events, it is probable that the Bank will be unable to collect all interest and principal payments due according to the originally contracted terms of the loan agreement.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. At December 31, 2024 and 2023, the Bank had no modified loans to borrowers experiencing financial difficulty.

Allowance for Credit Losses:

Allowance for Credit Losses – Loans

The ACL for loans is established through provisions for credit losses charged against income. Loans deemed to be uncollectible are charged against the ACL, and subsequent recoveries, if any, are credited to the ACL.

The ACL for loans is an estimate of the losses expected to be realized over the life of the loan portfolio. The ACL is determined for two distinct categories of loans: 1) loans evaluated individually for expected credit losses (specific reserve), and 2) loans evaluated collectively for expected credit losses (pooled reserve). Management's periodic evaluation of the adequacy of the ACL for loans is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic forecasts and conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' actual or perceived financial and managerial strengths, and other relevant factors. This evaluation is inherently subjective, as it requires material assumptions and estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on loans evaluated individually.

Loans evaluated individually for credit losses are primarily commercial purpose loans that do not share similar characteristics with those loans evaluated in the pool. These loans may exhibit performance characteristics where it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. All commercial purpose loans greater than $250 thousand and rated Substandard (7), Doubtful (8) or on nonaccrual status may be considered for individual evaluation. Impairment is measured on a loan-by-loan basis by one of the following methods: the fair value of the collateral if the loan is collateral dependent, the present value of expected future cash flows discounted at the loan's effective interest rate or the loan's obtainable market price. Commercial purpose loans with a balance less than $250 thousand, and consumer purpose loans are not evaluated individually for a specific reserve but are included in the pooled reserve calculation. Loans that are evaluated for a specific reserve, but not needing a specific reserve are not included in the pooled reserve calculation.

The Corporation has elected to exclude accrued interest receivable from the measurement of the ACL. When a loan is placed on nonaccrual status, any outstanding current accrued interest is reversed against income and prior year accrued interest is deducted from the ACL.

The pooled reserve represents the ACL for pools of homogenous loans, not evaluated individually. The pooled reserve is calculated using a quantitative and qualitative component for the loan pools.

The following inputs are used to calculate the quantitative component for the loan pool:

- Segregating loans into homogeneous pools by the FRB Call Code which is primarily a collateral-based and secondarily a purpose-based segmentation.
- The average remaining life of each pool is calculated using the weighted average remaining maturity method (WARM). The WARM method produces an estimated remaining balance by pool, by year, until maturity.
- A historical credit loss rate is calculated for each pool, using the average historical loss, by FRB Call Code, for a peer group of Pennsylvania community banks over the last eight quarters. The loss rate is calculated over a historical period the Bank believes best represents a period, based on a reasonable and supportable forecast, that will be similar to the next four quarters.
- The historical credit loss rate is applied to each WARM bucket though the initial four quarter forward-looking period.
- At the end of the forward-looking period, the credit loss rate applied to each WARM bucket reverts to the peer group historical loss rate for the respective pool.
- Collectively these estimated losses represent the quantitative component of the pooled reserve.

The qualitative component for the pool utilizes a risk matrix comprised of eight risk factors and assigns a risk level to each factor. The risk factors give consideration to changes in: lending policy, procedures and practice; economic conditions; nature and volume of loans; experience of lending team; volume of past due loans; quality of the loan review system; concentrations of credit; and other external factors. The risk factors are weighted to reflect Management's estimate of how the factor affects potential losses. The risk levels within each factor are measured in basis points and range from minimal risk to very high risk and are determined independently for commercial loans, residential mortgage loans and consumer loans.

The ACL for pooled loans is the sum of the quantitative and qualitative loss estimates.

Allowance for Credit Losses – Unfunded Commitments

The ACL for unfunded commitments is recorded in other liabilities on the consolidated balance sheet. The ACL represents management's estimate of expected losses from unfunded commitments and is determined by estimating future usage of the commitments, based on historical usage. The estimated loss is calculated in a manner similar to that used for the ACL for loans, previously described. The ACL is increased or decreased through the provision for credit losses.

The following table shows the allocation of the allowance for credit losses and other loan performance ratios, by class, as of December 31, 2024 and 2023:

Table 10. Loan Performance Ratios

(Dollars in thousands)	Residential Real Estate 1-4 Family			Commercial			
	First Liens	Junior Liens & Lines of Credit	Construction	Real Estate	Commercial	Consumer	Total
2024							
Loans at December 31, 2024	$ 240,601	$ 82,234	$ 32,427	$ 803,365	$ 230,597	$ 8,853	$ 1,398,077
Average Loans for 2024	222,572	76,515	28,096	747,037	241,554	7,322	1,323,096
Nonaccrual Loans at December 31, 2024	—	—	—	—	266	—	266
Allowance for Credit Losses at December 31, 2024	1,497	461	376	12,004	3,182	133	17,653
Net Recoveries/(Charge-offs) for 2024	3	—	14	2	(329)	(64)	(374)
Loans/Total Gross Loans at December 31, 2024	17%	6%	2%	57%	16%	1%	100%
Nonaccrual Loans/Total Gross Loans at December 31, 2024	0.00%	0.00%	0.00%	0.00%	0.12%	0.00%	0.02%
Allowance for Credit Loss/Gross Loans at December 31, 2024	0.62%	0.56%	1.16%	1.49%	1.38%	1.50%	1.26%
Net Recoveries (Charge-offs)/Average Loans for 2024	0.00%	0.00%	0.05%	0.00%	-0.14%	-0.87%	-0.03%
Allowance for Credit Loss/Nonaccrual Loans at December 31, 2024							6,636.47%
2023							
Loans at December 31, 2023	$ 205,288	$ 72,561	$ 25,900	$ 703,767	$ 242,654	$ 6,815	$ 1,256,985
Average Loans for 2023	173,986	72,623	21,124	626,817	243,045	6,285	1,143,880
Nonaccrual Loans at December 31, 2023	—	—	—	—	147	—	147
Allowance for Credit Losses at December 31, 2023	1,296	419	296	10,657	3,290	94	16,052
Net Recoveries/(Charge-offs) for 2023	2	—	49	1	(193)	(35)	(176)
Loans/Total Gross Loans at December 31, 2023	16%	6%	2%	56%	19%	1%	100%
Nonaccrual Loans/Total Gross Loans at December 31, 2023	0.00%	0.00%	0.00%	0.00%	0.06%	0.00%	0.01%
Allowance for Credit Loss/Gross Loans at December 31, 2023	0.63%	0.58%	1.14%	1.51%	1.36%	1.38%	1.28%
Net Recoveries (Charge-offs)/Average Loans for 2023	0.00%	0.00%	0.23%	0.00%	-0.08%	-0.56%	-0.02%
Allowance for Credit Loss/Nonaccrual Loans at December 31, 2023							10,919.73%

Goodwill:

The Bank has $9.0 million of goodwill recorded on its balance sheet as the result of corporate acquisitions. Goodwill is not amortized, nor deductible for tax purposes. However, goodwill is tested for impairment at least annually in accordance with ASC Topic 350. Goodwill was tested for impairment as of August 31, 2024. The 2024 test was conducted using a qualitative assessment method that requires the use of significant assumptions in order to make a determination of impairment. These assumptions may include, but are not limited to: macroeconomic factors, banking industry conditions, banking merger and acquisition trends, the Bank's historical financial performance, the Corporation's stock price, forecast Bank financial performance, and change of control premiums. Management determined the Bank's goodwill was likely not impaired in 2024 and did not make a further assessment.

The 2023 impairment test was also conducted using a qualitative assessment and Management determined the Bank's goodwill was likely not impaired in 2023 and did not make a further assessment.

At December 31, 2024, Management subsequently considered certain qualitative factors affecting the Corporation and determined that it was not likely that the results of the prior test had changed, and it determined that goodwill was not impaired at year-end.

Deposits:

The Bank depends on deposits generated in the normal course of business as its primary source of funds. The Bank offers numerous deposit products including demand deposits (noninterest and interest-bearing accounts), savings, money management accounts, and time deposits (certificates of deposits/CDs) to retail, commercial, and municipal customers. Table 11 shows a comparison of the major deposit categories over a two-year period at December 31. Table 3, presented previously, shows the average balance of the major deposit categories and the average cost of these deposits over a two-year period.

Table 11. Deposits

			Change	
(Dollars in thousands)	**2024**	2023	Amount	%
Noninterest-bearing checking	$ **290,346**	$ 273,050	$ 17,296	6.3
Interest-bearing checking	**417,870**	454,517	(36,647)	(8.1)
Money management	**694,880**	572,058	122,822	21.5
Savings	**96,646**	105,907	(9,261)	(8.7)
Time deposits	**315,905**	132,446	183,459	138.5
Total	$ **1,815,647**	$ 1,537,978	$ 277,669	18.1

Noninterest-bearing checking: This category increased $17.3 million while the average balance decreased by $10.5 million for the year. As a noninterest bearing account, these deposits contributed approximately 37 basis points to the net interest margin.

Interest-bearing checking: This category saw a decrease of $36.6 million in the ending balance compared to the prior year and a decrease of $42.7 million compared to the prior year average primarily, in retail accounts in 2024. The cost of these accounts increased by 18 basis points year over year.

Money management: The year over year balance increased $122.8 million and the average balance increased $58.6 million compared to the 2023 average balance. The cost of this product increased by 56 basis points during the year as market rates increased.

Savings: Savings accounts decreased $9.3 million during the year. The cost of this product increased by 1 basis points during the year as market rates increased.

Time deposits: Time deposits increased by $183.5 million in 2024 with an increase in the average balance of $119.0 million as customers locked in higher interest rates. The cost of these accounts increased from 3.04% to 4.43% as market rates increased. Included in this category is $87.1 million of brokered CDs, which increased $78.4 million over the prior year end balance of $8.7 million.

Reciprocal deposits: At year-end 2024, the Bank had $288.9 million placed in the IntraFi Network deposit program ($124.0 million in interest-bearing checking and $164.9 million in money management) and $39.6 million of time deposits placed into the CDARS program. These programs allow the Bank to offer full FDIC coverage to large depositors, but with the convenience to the customer of only having to deal with one bank. The Bank solicits these deposits from within its market and it believes they present no greater risk than any other local deposit. Only reciprocal deposits that exceed 20% of liabilities are considered brokered deposits. At December 31, 2024, the Bank's reciprocal deposits were 16.2% of total liabilities.

The Bank continually reviews different methods of funding growth that include traditional deposits and other wholesale sources. Competition from other local financial institutions, internet banks, credit unions and brokerages will continue to be a challenge for the Bank in its efforts to attract new and retain existing deposit accounts. This competition is not expected to lessen in the future.

Uninsured deposits: Aggregate estimated uninsured deposits at December 31, 2024 were $411.6 million (22.7% of total deposits) compared to $299.9 million (19.5% of total deposits) at December 31, 2023 utilizing Call Report methodology. Certain Bank deposits may not be insured but are fully collateralized by other assets. The Bank estimates that approximately 85% of its deposits are FDIC insured or collateralized as of December 31, 2024.

At December 31, 2024, time deposits in excess of the FDIC insurance limit and time deposits that are otherwise uninsured by maturity were as follows:

Table 12. Time Deposits of $250,000 or More

(Dollars in thousands)	Individual Instruments that Meet or Exceed FDIC Insurance Limit	Time Deposits that Meet or Exceed FDIC Insurance Limit
Maturity distribution:		
Within three months	$ 26,648	$ 18,398
Over three through six months	15,170	6,920
Over six through twelve months	32,615	29,865
Over twelve months	2,978	1,478
Total	$ 77,411	$ 56,661

Borrowings:

As of December 31, 2024, the Bank had outstanding borrowings of $200.0 million in a term loan from FHLB maturing in January 2027 at a rate of 4.32%. The proceeds of the term loan were used to restructure borrowings and to fund expected loan growth.

On August 4, 2020, the Corporation completed the sale of a subordinated debt note offering. The Corporation sold $15.0 million of subordinated debt notes with a maturity date of September 1, 2030. These notes are noncallable for 5 years and carry a fixed interest rate of 5% per year for 5 years and then convert to a floating rate of SOFR plus 4.93% per year for the remainder of the term. The notes can be redeemed at par beginning 5 years prior to maturity. The Corporation also sold $5.0 million of subordinated debt notes with a maturity date of September 1, 2035. These notes are noncallable for 10 years and carry a fixed interest rate of 5.25% per year for 10 years and then convert to a floating rate of SOFR plus 4.92% per year for the remainder of the term. The notes can be redeemed at par beginning 5 years prior to maturity. The notes are structured to qualify as Tier 2 capital for the Corporation and any funds it invests in the Bank qualify as Tier 1 capital at the Bank. The Corporation paid an issuance fee of 2% of the total issue and is being amortized to the maturity date of each issue on a pro-rata basis. The notes are recorded on the consolidated balance sheet net of unamortized debt issuance costs. The proceeds are intended to be used for general corporate purposes.

Shareholders' Equity:

Shareholders' equity increased by $12.6 million to $144.7 million at December 31, 2024. Retained earnings increased $5.5 million in 2024 from earnings of $11.1 million offset by dividends paid of $5.6 million ($1.28 per share). The dividend payout ratio was 50.7% in 2024 compared to 41.2% in 2023.

The Board of Directors frequently authorizes the repurchase of the Corporation's $1.00 par value common stock. Information regarding stock repurchase plans in place during the year are included in Item 5 Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities. Additional information on Shareholders' Equity is reported in Note 20 of the accompanying consolidated financial statements.

The Corporation's dividend reinvestment plan (DRIP) allows for shareholders to purchase additional shares of the Corporation's common stock by reinvesting cash dividends paid on their shares or through optional cash payments. The Dividend Reinvestment Plan (DRIP) added $1.7 million to capital during 2024. This total was comprised of $1.0 million from the reinvestment of quarterly dividends and $730 thousand of optional cash purchases.

A strong capital position is important to the Corporation as it provides a solid foundation for the future growth of the Corporation, as well as instills confidence in the Bank by depositors, regulators and investors, and is considered essential by Management. The Corporation is continually exploring other sources of capital as part of its capital management plan for the Corporation and the Bank.

Common measures of adequate capitalization for banking institutions are capital ratios. These ratios indicate the proportion of permanently committed funds to the total asset base. Guidelines issued by federal and state regulatory authorities require both banks and bank holding companies to meet minimum leverage capital ratios and risk-based capital ratios.

The leverage ratio compares Tier 1 capital to average assets while the risk-based ratio compares Tier 1 and total capital to risk-weighted assets and off-balance-sheet activity in order to make capital levels more sensitive to the risk profiles of individual banks. Tier 1 capital is comprised of common stock, additional paid-in capital, retained earnings and components of other comprehensive income, reduced by goodwill and other intangible assets. Total capital is comprised of Tier 1 capital plus the allowable portion of the allowance for loan losses.

The Corporation, as a bank holding company, is required to comply with the capital adequacy standards established by Federal Reserve Board. The Bank is required to comply with capital adequacy standards established by the FDIC. In addition, the Pennsylvania Department of Banking also requires state-chartered banks to maintain a 6% leverage capital level and 10% risk-based capital, defined substantially the same as the federal regulations.

The Corporation and the Bank are subject to the capital requirements contained in the regulation generally referred to as Basel III. The Basel III standards were effective for the Corporation and the Bank, effective January 1, 2015. Basel III imposes significantly higher capital requirements and more restrictive leverage and liquidity ratios than those previously in place. The capital ratios to be considered "well capitalized" under Basel III are: (1) Common Equity Tier 1(CET1) of 6.5%, (2) Tier 1 Leverage of 5%, (3) Tier 1 Risk-Based Capital of 8%, and (4) Total Risk-Based Capital of 10%. The CET1 ratio is a new capital ratio under Basel III and the Tier 1 risk-based capital ratio of 8% has been increased from 6%. The rules also included changes in the risk weights of certain assets to better reflect credit and other risk exposures. In addition, a capital conservation buffer of 2.50% is applicable to all of the capital ratios except for the Tier 1 Leverage ratio. The capital conservation buffer is equal to the lowest value of the three applicable capital ratios less the regulatory minimum ("adequately capitalized") for each respective capital measurement. The Bank's capital conservation buffer at December 31, 2024 was 4.96%. Compliance with the capital conservation buffer is required in order to avoid limitations on certain capital distributions, especially dividends. As of December 31, 2024, the Bank was "well capitalized' under the Basel III requirements.

In 2019, the Community Bank Leverage Ratio (CBLR) was approved by federal banking agencies as an optional capital measure available to Qualifying Community Banking Organizations (QCBO). If a bank qualifies as a QCBR and maintains a CBLR of 9% or greater, the bank would be considered "well-capitalized" for regulatory capital purposes and exempt from complying with the Basel III risk-based capital rule. The CBLR rule was effective January 1, 2020 and banks could opt-in through an election in the first quarter 2020 regulatory filings. The Bank met the criteria of a QCBO but did not opt-in to the CBLR.

The consolidated asset limit on small bank holding companies is $3 billion and a company with assets under that limit is not subject to the consolidated capital rules but may file reports that include capital amounts and ratios. The Corporation has elected to file those reports.

The following table presents capital ratios for the Corporation and Bank at December 31:

Table 13. Capital Ratios

	2024		2023	
	Corporation	**Bank**	Corporation	Bank
Common Equity Tier 1 risk-based capital ratio	**11.31%**	**11.71%**	11.82%	12.38%
Total risk-based capital ratio	**13.85%**	**12.96%**	14.45%	13.63%
Tier 1 risk-based capital ratio	**11.31%**	**11.71%**	11.82%	12.38%
Tier 1 leverage ratio	**7.92%**	**8.20%**	9.01%	9.44%

For additional information on capital adequacy refer to Note 2 of the accompanying consolidated financial statements.

Local Economy

The Corporation's primary market area includes Franklin, Fulton, Cumberland, Huntingdon, and Dauphin County, PA, and Washington County, MD. This area is diverse in demographic and economic composition. County populations range from a low of approximately 15,000 in Fulton County to over 289,000 in Dauphin County. The market area has a diverse economic base and local industries include warehousing, truck and rail shipping centers, light and heavy manufacturers, health care, higher education institutions, farming and agriculture, and a varied service sector. The market area provides easy access to the major metropolitan markets on the east coast via trucking and rail transportation. Because of this, warehousing and distribution companies continue to find the area attractive. The local economy is not overly dependent on any one industry or business and Management believes that the Bank's primary market area continues to be well suited for growth. The following provides selected economic data for the Bank's primary market at December 31:

Economic Data

	2024	2023
Unemployment Rate (not seasonally adjusted)		
Market area range (1)	**2.7% - 3.8%**	2.4% - 3.5%
Pennsylvania (seasonally adjusted)	**3.4%**	3.4%
Maryland (seasonally adjusted)	**3.0%**	1.7%
United States (seasonally adjusted)	**4.2%**	3.7%
Housing Price Index - year over year change		
PA, nonmetropolitan statistical area	**9.5%**	4.6%
United States	**5.1%**	4.8%
Building Permits - year over year change -12 months (2)		
Residential, estimated	**6.1%**	-15.4%
Multifamily, estimated	**46.0%**	-50.7%

(1) Cumberland, Dauphin, Franklin, Fulton and Huntingdon County, PA, Washington County, MD and State of Maryland
(2) Harrisburg-Carlisle, PA MSA, Chambersburg-Waynesboro, PA MSA and Hagerstown, MD Martinsburg, WV MSA

The assets and liabilities of the Corporation are financial in nature, as such, the pricing of products, customer demand for certain types of products, and the value of assets and liabilities are greatly influenced by interest rates. As such, interest rates and changes in interest rates may have a more significant effect on the Corporation's financial results than on other types of industries. Because of this, the Corporation watches the actions of the Federal Reserve Open Market Committee (FOMC) as it makes decisions about interest rate changes and monetary policy. In January 2025, the FOMC release included this: "Recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated. The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective. In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments." Over the long-term, the Corporation benefits from higher interest rates.

Liquidity

The Corporation conducts substantially all of its business through its bank subsidiary. The liquidity needs of the Corporation are funded primarily by the bank subsidiary, supplemented with liquidity from its dividend reinvestment plan.

The Bank must meet the financial needs of the customers that it serves, while providing a satisfactory return on the shareholders' investment. In order to accomplish this, the Corporation must maintain sufficient liquidity in order to respond quickly to the changing level of funds required for both loan and deposit activity. The goal of liquidity management is to meet the ongoing cash flow requirements of depositors who want to withdraw funds and of borrowers who request loan disbursements. The Bank regularly reviews its liquidity position by measuring its projected net cash flows (in and out) at a 30 and 90-day interval. The Bank stress tests this measurement by assuming a level of deposit out-flows that have not historically been realized. In addition to this forecast, other funding sources are reviewed as a method to provide emergency funding if necessary. The objective of this measurement is to identify the amount of cash that could be raised quickly without the need to liquidate assets. The Bank also stresses its liquidity position utilizing different longer-term scenarios. The varying degrees of stress create pressure on deposit flows in its local market, reduce access to wholesale funding and limit access of funds available through brokered deposit channels. In addition to stressing cash flow, specific liquidity risk indicators are monitored to help identify risk areas. This analysis helps identify and quantify the potential cash surplus/deficit over a variety of time horizons to ensure the Bank has adequate funding resources. Assumptions used for liquidity stress testing are subjective. Should an evolving liquidity situation or business cycle present new data, potential assumption changes will be considered. The Bank believes it can meet all anticipated liquidity demands.

Historically, the Bank has satisfied its liquidity needs from earnings, repayment of loans, amortizing and maturing investment securities, loan sales, deposit growth and its ability to access existing lines of credit. All investment securities are classified as

available for sale; therefore, marketable securities that are unencumbered as collateral for borrowings are an additional source of readily available liquidity (approximately $301.4 million fair value), either by selling the security or, more preferably, to provide collateral for additional borrowing. The Bank also has access to other wholesale funding via the brokered CD market.

The FHLB system has always been a major source of funding for community banks. There are no indicators that lead the Bank to believe the FHLB will discontinue its lending function or restrict the Bank's ability to borrow. If either of these events were to occur, it would have a material negative effect on the Bank, and it is highly unlikely that the Bank could replace the level of FHLB funding in a short time. The Bank has also established credit at the Federal Reserve Discount Window and unsecured lines of credit at correspondent banks.

The following table shows the Bank's available liquidity at December 31, 2024.

(Dollars in thousands)

Liquidity Source	Capacity	Outstanding	Available
Federal Home Loan Bank	$ 562,697	$ 200,000	$ 362,697
Federal Reserve Bank Discount Window	64,575	—	64,575
Correspondent Banks	76,000	—	76,000
Total	$ 703,272	$ 200,000	$ 503,272

Off Balance Sheet Commitments

The Corporation's financial statements do not reflect various commitments that are made in the normal course of business, which may involve some liquidity risk. These commitments consist mainly of unfunded loans and letters of credit made under the same standards as on-balance sheet loans and lines of credit. Because these unfunded instruments have fixed maturity dates and many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Corporation. The ACL for unfunded commitments is reported in Other Liabilities on the Consolidated Balance Sheet.

(Dollars in thousands)

Financial instruments whose contract amounts represent credit risk	**2024**	2023
Commercial commitments to extend credit	**$ 328,806**	$ 325,982
Consumer commitments to extend credit (secured)	**135,776**	112,157
Consumer commitments to extend credit (unsecured)	**5,352**	5,964
	$ 469,934	$ 444,103
Standby letters of credit	**$ 28,815**	$ 19,851
ACL - Unfunded Commitments (1)	**$ 2,030**	$ 2,022

(1) Reported in Other Liabilities on the Consolidated Balance Sheets

Management believes that any amounts actually drawn upon can be funded in the normal course of operations. The Corporation has no investment in or financial relationship with any unconsolidated entities that are reasonably likely to have a material effect on liquidity.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk

In the course of its normal business operations, the Corporation is exposed to certain market risks. The Corporation has no foreign currency exchange rate risk, no commodity price risk or material equity price risk. However, it is exposed to interest rate risk. All interest rate risk arises in connection with financial instruments entered into for purposes other than trading. Financial instruments, which are sensitive to changes in market interest rates, include fixed and variable-rate loans, fixed-income securities, derivatives, interest-bearing deposits and other borrowings.

Changes in interest rates can have an impact on the Corporation's net interest income and the economic value of equity. The objective of interest rate risk management is to identify and manage the sensitivity of net interest income and economic value of equity to changing interest rates in order to achieve consistent earnings that are not contingent upon favorable trends in interest rates.

The Corporation's primary tool for analyzing interest rate risk is financial simulation modeling which captures the effect of not only changing interest rates but also other sources of cash flow variability including loan and securities prepayments and customer

preferences. Financial simulation modeling forecasts both net interest income and the economic value of equity under a variety of different interest rate environments. The Corporation measures the effects of multiple interest rate change scenarios on at least a quarterly basis. The magnitude of each change scenario may vary depending on the current interest rate environment. In addition, the balance sheet is held static in each scenario so that the effect of an interest rate change can be isolated and not distorted by changes in the balance sheet.

Table 14 presents the results of six different rate change scenarios and measures the change in net interest income against a base (unchanged) scenario over one year. For each scenario, interest rate changes are ramped up or down over a period of 1 year. The Bank believes a ramp scenario is more realistic than an interest rate shock scenario; however, the Bank also runs scenarios using shocks and yield curve twists.

Computations of prospective effects of hypothetical interest rate changes are based on many assumptions, including relative levels of market interest rates, loan prepayments and deposit repricing that cannot be measured with complete precision. Further, the computations do not contemplate any actions Management could undertake in response to changes in market interest rates.

Table 14. Sensitivity to Changes in Market Interest Rates

(Dollars in thousands)	Net Interest Income	
Change in rates (basis points)	**Projected**	**% Change**
+300	$ 64,596	4.4%
+200	$ 63,852	3.2%
+100	$ 62,972	1.8%
unchanged	$ 61,879	—
(100)	$ 60,570	(2.1)%
(200)	$ 59,645	(3.6)%
(300)	$ 58,606	(5.3)%

Impact of Inflation

The impact of inflation upon financial institutions such as the Corporation differs from its effect upon other commercial enterprises. Unlike most other commercial enterprises, virtually all of the assets of the Corporation are monetary in nature. As a result, interest rates have a more significant impact on the Corporation's performance than do the effects of general levels of inflation. Although inflation (and inflation expectations) may affect the interest rate environment, it is not possible to measure with any precision the impact of future inflation upon the Corporation.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of Franklin Financial Services Corporation
Chambersburg, Pennsylvania

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Franklin Financial Services Corporation (the "Company") as of December 31, 2024 and 2023, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses – Adoption of Qualitative Factor Framework and Subsequent Application of Risk Assignments to Qualitative Factors

The allowance for credit losses (the "ACL") as described in Notes 1 and 4 is an accounting estimate of expected credit losses over the life of loans. Estimates of expected credit losses are based on historical experience, adjusted for management's evaluation of current conditions and reasonable and supportable forecasts over the life of the loans.

The Company measures expected credit losses based on pooled loans when similar risk characteristics exist. The ACL for pooled loans is the sum of quantitative and qualitative loss estimates. The quantitative portion is based on historical loss rates. A historical loss rate is calculated for each pool of loans. Adjustments to the quantitative portion are made for differences in: lending policy, procedures and practice; economic conditions; nature and volume of loans; experience of lending team; volume of past due loans; quality of the loan review system; concentrations of credit; and other external factors. These adjustments are formulated through a qualitative factor framework that comprises the eight aforementioned factors and assigns a risk level to each factor. The risk factors are weighted to reflect management's estimate of how the factor affects expected losses. The risk levels within each factor are measured in basis points and range from minimal risk to very high risk. Management assigns risk levels to each factor based on their evaluation of each the eight risk factors.

Auditing the qualitative factors within the ACL was identified by us as a critical audit matter because of the significant auditor judgment applied and significant audit effort needed to evaluate the subjective and complex judgments made by management related to the determination of the qualitative factors used in the calculation.

The primary procedures performed to address the critical audit matter included substantively evaluating:

- The appropriateness of significant judgments applied in the qualitative framework, including the qualitative factors chosen, associated weightings, and allocation range within the framework.
- The application of risk assignments for the individual qualitative factors, including the appropriateness of management's basis for risk level assignments.
- The relevance and reliability of data used in determining the risk level assignments.

/s/ Crowe LLP

We have served as the Company's auditor since 2019.
Washington, D.C.
March 14, 2025

Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)	December 31, 2024	2023
Assets		
Cash and due from banks	**$ 19,848**	$ 19,505
Short-term interest-earning deposits in other banks	**183,765**	3,635
Total cash and cash equivalents	**203,613**	23,140
Long-term interest-earning deposits in other banks	**1,499**	6,229
Debt securities available for sale, at fair value	**508,604**	472,503
Equity securities	**166**	427
Restricted stock	**8,775**	2,375
Loans held for sale	**2,470**	213
Loans	**1,398,077**	1,256,985
Allowance for credit losses	**(17,653)**	(16,052)
Net Loans	**1,380,424**	1,240,933
Premises and equipment, net	**29,039**	28,543
Right of use asset	**4,106**	4,680
Bank owned life insurance	**22,735**	22,758
Goodwill	**9,016**	9,016
Deferred tax asset, net	**10,831**	11,801
Other assets	**16,563**	13,421
Total assets	**$ 2,197,841**	$ 1,836,039
Liabilities		
Deposits		
Noninterest-bearing checking	**$ 290,346**	$ 273,050
Money management, savings and interest checking	**1,209,396**	1,132,482
Time	**315,905**	132,446
Total deposits	**1,815,647**	1,537,978
Federal Reserve Bank borrowings	**—**	90,000
Federal Home Loan Bank advances	**200,000**	40,000
Subordinate notes	**19,699**	19,661
Lease liability	**4,263**	4,816
Other liabilities	**13,516**	11,448
Total liabilities	**2,053,125**	1,703,903
Commitments and contingent liabilities		
Shareholders' equity		
Common stock, $1 par value per share,15,000,000 shares authorized with 4,710,972 shares issued and 4,427,362 shares outstanding at December 31, 2024 and 4,710,972 shares issued and 4,371,231 shares outstanding at December 31, 2023	**4,711**	4,711
Capital stock without par value, 5,000,000 shares authorized with no shares issued and outstanding	**—**	—
Additional paid-in capital	**43,791**	43,646
Retained earnings	**139,463**	133,993
Accumulated other comprehensive (loss) income	**(35,508)**	(40,940)
Treasury stock, 283,610 shares at December 31, 2024 and 339,741 shares at December 31, 2023, at cost	**(7,741)**	(9,274)
Total shareholders' equity	**144,716**	132,136
Total liabilities and shareholders' equity	**$ 2,197,841**	$ 1,836,039

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

(Dollars in thousands, except per share data)	Years ended December 31, 2024	2023
Interest income		
Loans, including fees	**$ 73,996**	$ 58,277
Interest and dividends on investments:		
Taxable interest	**16,433**	14,790
Tax exempt interest	**1,093**	1,232
Dividend income	**692**	56
Interest-earning deposits in other banks	**9,237**	2,407
Total interest income	**101,451**	76,762
Interest expense		
Deposits	**30,906**	18,843
Federal Reserve Bank borrowings	**1,962**	2,374
FHLB advances	**10,019**	857
Subordinate notes	**1,050**	1,051
Total interest expense	**43,937**	23,125
Net interest income	**57,514**	53,637
Provision for credit losses - loans	**1,975**	2,589
Provision for credit losses - unfunded commitments	**8**	135
Total provision for credit losses	**1,983**	2,724
Net interest income after provision for credit loss expense	**55,531**	50,913
Noninterest income		
Wealth management fees	**8,538**	7,512
Loan service charges	**987**	811
Gain on sale of loans	**565**	199
Deposit service charges and fees	**2,448**	2,492
Other service charges and fees	**2,040**	1,852
Debit card income	**2,279**	2,157
Increase in cash surrender value of life insurance	**457**	448
Net losses on sales of debt securities	**(4,267)**	(1,119)
Change in fair value of equity securities	**209**	16
Other	**423**	483
Total noninterest income	**13,679**	14,851
Noninterest Expense		
Salaries and employee benefits	**32,752**	28,813
Net occupancy	**4,583**	4,398
Marketing and advertising	**1,891**	2,071
Legal and professional	**2,133**	2,301
Data processing	**5,804**	4,792
Pennsylvania bank shares tax	**483**	745
FDIC Insurance	**1,710**	851
ATM/debit card processing	**1,300**	1,235
Telecommunications	**435**	405
Nonservice pension	**(51)**	(117)
Lease termination	**—**	495
Other	**4,855**	4,022
Total noninterest expense	**55,895**	50,011
Income before income taxes	**13,315**	15,753
Income tax expense	**2,216**	2,155
Net income	**$ 11,099**	$ 13,598
Per share		
Basic earnings per share	**$ 2.52**	$ 3.11
Diluted earnings per share	**$ 2.51**	$ 3.10

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

(Dollars in thousands)	Years ended December 31, **2024**	2023
Net Income	**$ 11,099**	$ 13,598
Debt Securities		
Unrealized (losses) gains arising during the period	**(300)**	10,962
Reclassification adjustment for losses included in net income (1)	**4,267**	1,119
Reclassification adjustment for losses (gains) realized in income on fair value hedge (2)	**2,300**	—
Net unrealized gains (losses)	**6,267**	12,081
Tax effect	**(1,316)**	(2,537)
Net of tax amount	**4,951**	9,544
Pension		
Unrealized gains arising during the period	**565**	1,017
Reclassification for net actuarial losses included in net income (3)	**44**	—
Net unrealized gains	**609**	1,017
Tax effect	**(128)**	(214)
Net of tax amount	**481**	803
Total other comprehensive gain (loss)	**5,432**	10,347
Total Comprehensive Income (Loss)	**$ 16,531**	$ 23,945

(1) Reclassified to net losses on sales of debt securities
(2) Reclassified to interest income
(3) Reclassified to other expense

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Shareholders' Equity
For years ended December 31, 2024 and 2023:

(Dollars in thousands, except per share data)	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance at January 1, 2023	4,390,397	$ 4,711	$ 43,535	$ 125,892	$ (51,287)	$ (8,654)	$ 114,197
Net income		—	—	13,598	—	—	13,598
Cumulative change in accounting principle, net of tax		—	—	98	—	—	98
Other comprehensive loss		—	—	—	10,347	—	10,347
Cash dividends declared, $1.28 per share		—	—	(5,595)	—	—	(5,595)
Acquisition of treasury stock	(84,414)	—	—	—	—	(2,394)	(2,394)
Treasury shares issued under dividend reinvestment plan	46,458	—	93	—	—	1,262	1,355
Stock Compensation Plans:							
Treasury shares issued	18,790	—	(465)	—	—	512	47
Compensation expense		—	483	—	—	—	483
Balance at December 31, 2023	4,371,231	$ 4,711	$ 43,646	$ 133,993	$ (40,940)	$ (9,274)	$ 132,136
Net income		—	—	**11,099**	—	—	**11,099**
Other comprehensive income		—	—	—	**5,432**	—	**5,432**
Cash dividends declared, $1.28 per share		—	—	**(5,629)**	—	—	**(5,629)**
Acquisition of treasury stock	**(30,292)**	—		—	—	**(827)**	**(827)**
Treasury shares issued under dividend reinvestment plan	**62,247**	—	**49**	—	—	**1,700**	**1,749**
Stock Compensation Plans:							
Treasury shares issued	**24,176**	—	**(538)**	—	—	**660**	**122**
Compensation expense		—	**634**	—	—	—	**634**
Balance at December 31, 2024	**4,427,362**	**$ 4,711**	**$ 43,791**	**$ 139,463**	**$ (35,508)**	**$ (7,741)**	**$ 144,716**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

(Dollars in thousands)	December 31, 2024	2023
Cash flows from operating activities		
Net income	**$ 11,099**	$ 13,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**2,090**	2,016
Net amortization of loans and investment securities	**2,968**	2,462
Amortization of subordinate debt issuance costs	**38**	38
Provision for credit losses	**1,983**	2,724
Change in fair value of equity securities	**(209)**	(16)
Realized losses on sales of debt securities	**4,267**	1,119
Loans originated for sale	**(43,086)**	(13,965)
Proceeds from sale of loans	**41,394**	14,234
Gain on sale of loans held for sale	**(565)**	(199)
Increase in cash surrender value of life insurance	**(457)**	(448)
Gains from claims on life insurance policies	**(78)**	—
Stock option compensation	**634**	483
Increase in other assets	**1,077**	(534)
Increase in other liabilities	**1,073**	3,913
Deferred tax (benefit) expense	**(473)**	1,140
Net cash provided by operating activities	**21,755**	26,565
Cash flows from investing activities		
Net decrease in long-term interest-earning deposits in other banks	**4,730**	7,746
Proceeds from sales and calls of investment securities available for sale	**42,413**	40,113
Proceeds from maturities and pay-downs of securities available for sale	**54,820**	32,295
Purchase of investment securities available for sale	**(136,268)**	(50,252)
Net increase in restricted stock	**(6,400)**	(1,731)
Net increase in loans	**(141,652)**	(205,939)
Proceeds from surrender of life insurance policies	**558**	—
Capital expenditures	**(2,567)**	(499)
Net cash used in investing activities	**(184,366)**	(178,267)
Cash flows from financing activities		
Net increase (decrease) in demand deposits, interest-bearing checking, and savings accounts	**94,210**	(88,526)
Net increase in time deposits	**183,459**	75,056
Increase in long-term borrowings (FHLB)	**200,000**	—
(Decrease) increase in long-term borrowings (FHLB & FRB)	**(130,000)**	130,000
Dividends paid	**(5,629)**	(5,595)
Purchase of Treasury shares	**(827)**	(2,394)
Cash received from option exercises	**122**	47
Treasury shares issued under dividend reinvestment plan	**1,749**	1,355
Net cash provided by financing activities	**343,084**	109,943
Increase (decrease) in cash and cash equivalents	**180,473**	(41,759)
Cash and cash equivalents as of January 1	**23,140**	64,899
Cash and cash equivalents as of December 31	**$ 203,613**	$ 23,140
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest on deposits and other borrowed funds	**$ 43,105**	$ 19,460
Income taxes	**$ 1,859**	$ 1,344
Noncash Activities:		
Lease liabilities arising from obtaining right-of-use assets	**$ 20**	$ —
Noncash extinguishment of lease liability	**$ —**	$ 537
Noncash decrease in right-of-use asset	**$ —**	$ 507

The accompanying notes are an integral part of these unaudited financial statements.

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The accounting policies of Franklin Financial Services Corporation and its subsidiaries conform to U.S. generally accepted accounting principles and to general industry practices. A summary of the more significant accounting policies, which have been consistently applied in the preparation of the accompanying consolidated financial statements, follows:

Principles of Consolidation – The consolidated financial statements include the accounts of Franklin Financial Services Corporation (the Corporation) and its wholly-owned subsidiaries; Farmers and Merchants Trust Company of Chambersburg and Franklin Future Fund Inc. Farmers and Merchants Trust Company of Chambersburg is a commercial bank (the Bank) that has one wholly-owned subsidiary, Franklin Financial Properties Corp., which holds real estate assets that are leased by the Bank. Franklin Future Fund Inc. is a non-bank investment company that makes venture capital investments within the Corporation's primary market area. The activities of non-bank entities are not significant to the consolidated totals. All significant intercompany transactions have been eliminated in consolidation.

Nature of Operations – The Corporation conducts substantially all of its business through its subsidiary bank, Farmers and Merchants Trust Company of Chambersburg, which serves its customer base through twenty-two community-banking offices located in Franklin, Cumberland, Fulton and Huntingdon Counties, Pennsylvania; and Washington County, Maryland. These counties are considered to be the Corporation's primary market area, but it may do business in the greater South-Central Pennsylvania and Northern Maryland market. The Bank is a community-oriented commercial bank that emphasizes customer service and convenience. As part of its strategy, the Bank has sought to develop a variety of products and services that meet the needs of both its retail and commercial customers. The Corporation and the Bank are subject to the regulations of various federal and state agencies and undergo periodic examinations by these regulatory authorities.

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

Significant Group Concentrations of Credit Risk – Most of the Corporation's activities are with customers located within its primary market area. Note 4 of the consolidated financial statements shows the types of securities in which the Corporation invests. Note 5 of the consolidated financial statements shows the types of lending in which the Corporation engages. The Corporation does not have any significant concentrations in any one industry or customer.

Statement of Cash Flows – For purposes of reporting cash flows, cash and cash equivalents include Cash and due from banks, interest-bearing deposits in other banks and cash items with original maturities less than 90 days.

Investment Securities – Management classifies its debt securities at the time of purchase as available for sale or held to maturity. At December 31, 2024 and 2023, all debt securities were classified as available for sale, meaning that the Corporation intends to hold them for an indefinite period of time, but not necessarily to maturity. Available-for-sale debt securities are stated at estimated fair value, adjusted for amortization of premiums and accretion of discounts which are recognized as adjustments of interest income through call date or maturity. The related unrealized gains and losses are reported as other comprehensive income or loss, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method. Gains or losses on the disposition of debt investment securities are recorded on the trade date, based on the net proceeds and the adjusted carrying amount of the specific security sold. Equity investments are carried at fair value with changes in fair value recognized in net income.

On January 1, 2023, the Corporation adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments which eliminated the previous concept of other-than-temporary impairment for AFS securities. (see Allowance for Credit Losses below).

Restricted Stock – Restricted stock, which is carried at cost, consists of stock of the Federal Home Loan Bank of Pittsburgh (FHLB) and Atlantic Central Bankers Bank (ACBB). The Bank held $8.8 million of restricted stock at the end of 2024. With the exception of $30 thousand, this investment represents stock in the FHLB that the Bank is required to hold in order to be a member of FHLB and is carried at a cost of $100 per share. FHLB stock is divided into two classes: membership stock and activity stock, which is based on outstanding loan balances. Federal law requires a member institution of the FHLB to hold FHLB stock according to a predetermined formula. Management evaluates the restricted stock for impairment in accordance with ASC Topic 320. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the banks as compared to the capital stock

amount for the banks and the length of time this situation has persisted, (2) commitments by the banks to make payments required by law or regulation and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the banks. As a government sponsored entity, FHLB has the ability to raise funding through the U.S. Treasury that can be used to support its operations. There is not a public market for FHLB or ACBB stock and the benefits of membership (e.g., liquidity and low-cost funding) add value to the stock beyond purely financial measures. Management intends to remain a member of the FHLB and believes that it will be able to fully recover the cost basis of this investment. Management believes no impairment charge is necessary related to the FHLB or ACBB restricted stock as of December 31, 2024.

Financial Derivatives - FASB ASC 815, *Derivatives and Hedging* ("ASC 815"), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Corporation records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Corporation has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as fair values change. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Corporation may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply, or the Corporation elects not to apply hedge accounting.

In accordance with the FASB's fair value measurement guidance (in ASU 2011-04), the Corporation may make an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. At December 31, 2024, there were no derivatives subject to a netting agreement.

Loans – Loans, that Management has the intent and ability to hold for the foreseeable future or until maturity or payoff, are stated at the outstanding unpaid principal balances, net of any deferred fees. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans using the interest method. The Corporation is amortizing these amounts over the contractual life of the loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or Management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in a prior year is charged against the allowance for credit losses. Payments received on nonaccrual loans are applied initially against principal, then interest income, late charges and any other expenses and fees. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Consumer loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loans.

Loans Held for Sale – Mortgage loans originated and intended for sale in the secondary market at the time of origination are carried at the lower of cost or estimated fair value (determined on an aggregate basis). All sales are made without recourse. Loans held for sale at December 31, 2024 represent loans originated through third-party brokerage agreements for a pre-determined price and present no price risk to the Bank.

Allowance for Credit Losses (ACL)

On January 1, 2023, the Corporation adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit commitments not accounted for as insurance (loan commitments,

standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and unfunded credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with the previously applicable incurred loss methodology.

The Corporation has determined this accounting policy to be critical to the results of operations. A summary of the adoption of the new ASU follows:

ACL - Investment Securities

Management classifies its debt securities at the time of purchase as available for sale (AFS) or held to maturity (HTM). At December 31, 2024 and 2023, all debt securities were classified as AFS, meaning that the Corporation intends to hold them for an indefinite period of time, but not necessarily to maturity. Available for sale debt securities are stated at estimated fair value, adjusted for amortization of premiums and accretion of discounts which are recognized as adjustments of interest income through call date or maturity. The related unrealized gains and losses are reported as other comprehensive income or loss, net of tax, until realized.

With the adoption of CECL on January 1, 2023, the previous concept of other-than-temporary impairment for AFS securities has been eliminated. Under CECL, credit losses on AFS debt securities are recognized in the ACL for investments, through the provision for credit losses, rather than through a direct write-down of the security. In evaluating AFS securities for credit losses, Management considers factors such as delinquency, guarantees, invest grade rating, and specific conditions related to a specific security or industry. If an impaired debt security is sold, any previous ACL on that security is charged-off and any incremental loss will be recognized through earnings. Any improvement in expected credit losses will be recognized by reducing the ACL.

For HTM securities an estimate of current expected credit loss must be established at the time of purchase with changes in estimated credit loss recognized in the ACL through the provision for credit losses.

ACL – Loans

The ACL for loans is established through provisions for credit losses charged against income. Loans deemed to be uncollectible are charged against the ACL, and subsequent recoveries, if any, are credited to the ACL.

The ACL for loans is an estimate of the losses expected to be realized over the life of the loan portfolio. The ACL is determined for two distinct categories of loans: 1) loans evaluated individually for expected credit losses (specific reserve), and 2) loans evaluated collectively for expected credit losses (pooled reserve). Management's periodic evaluation of the adequacy of the ACL for loans is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' actual or perceived financial and managerial strengths, and other relevant factors. This evaluation is inherently subjective, as it requires material assumptions and estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

Loans evaluated individually for credit losses are primarily commercial purpose loans that do not share similar characteristics with those loans evaluated in the pool. These loans may exhibit performance characteristics where it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. All commercial purpose loans greater than $250 thousand and rated Substandard (7), Doubtful (8) or on nonaccrual status may be considered for individual evaluation. Impairment is measured on a loan-by-loan basis by one of the following methods: the fair value of the collateral if the loan is collateral dependent, the present value of expected future cash flows discounted at the loan's effective interest rate or the loan's obtainable market price. Commercial purpose loans with a balance less than $250 thousand, and consumer purpose loans are not evaluated individually for a specific reserve but are included in the pooled reserve calculation. Loans that are evaluated for a specific reserve, but not needing a specific reserve are not included in the pooled reserve calculation.

The Corporation has elected to exclude accrued interest receivable from the measurement of the ACL. When a loan is placed on nonaccrual status, any outstanding current accrued interest is reversed against income and prior year accrued interest is deducted from the ACL.

The pooled reserve represents the ACL for pools of homogenous loans, not evaluated individually. The pooled reserve is calculated using a quantitative and qualitative component for the loan pools.

The following inputs are used to calculate the quantitative component for the pool:

- Segregating loans into homogeneous pools by the FRB Call Code which is primarily a collateral-based and secondarily a purpose-based segmentation.
- The average remaining life of each pool is calculated using the weighted average remaining maturity method (WARM). The WARM method produces an estimated remaining balance by pool, by year, until maturity.
- A historical credit loss rate is calculated for each pool, using the average historical loss, by FRB Call Code, for a peer group of Pennsylvania community banks over the last eight quarters. The loss rate is calculated over a historical period the Bank believes best represents a period, based on a reasonable and supportable forecast, that will be similar to the next four quarters.
- The historical credit loss rate is applied to each WARM bucket though the initial four quarter forward-looking period.

- At the end of the forward-looking period, the credit loss rate applied to each WARM bucket reverts to the historical loss rate for the respective pool.
- Collectively these estimated losses represent the quantitative component of the pooled reserve.

The qualitative component for the pool utilizes a risk matrix comprised of eight risk factors and assigns a risk level to each factor. The risk factors consider changes in: lending policy, procedures and practice; economic conditions; nature and volume of loans; experience of lending team; volume of past due loans; quality of the loan review system; concentrations of credit; and other external factors. The risk factors are weighted to reflect Management's estimate of how the factor affects potential losses. The risk levels within each factor are measured in basis points and range from minimal risk to very high risk and are determined independently for commercial loans, residential mortgage loans and consumer loans.

The ACL for pooled loans is the sum of the quantitative and qualitative loss estimates.

ACL – Unfunded Commitments

The ACL for unfunded commitments is recorded in other liabilities on the consolidated balance sheet. The ACL represents management's estimate of expected losses from unfunded commitments and is determined by estimating future usage of the commitments, based on historical usage. The estimated loss is calculated in a manner similar to that used for the ACL for loans, previously described. The ACL is increased or decreased through the provision for credit losses.

Premises and Equipment – Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets or the lease term for lease hold improvements, whichever is shorter. When assets are retired or sold, the asset cost and related accumulated depreciation are eliminated from the respective accounts, and any resultant gain or loss is included in net income.

The cost of maintenance and repairs is charged to operating expense as incurred, and the cost of major additions and improvements is capitalized.

Bank Owned Life Insurance – The Bank invests in bank owned life insurance (BOLI) as a source of funding for employee benefit expenses. The Bank purchases life insurance coverage on the lives of a select group of employees. The Bank is the owner and beneficiary of the policies and records the investment at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is included in noninterest income.

Other Real Estate Owned (OREO) – Foreclosed real estate (OREO) is comprised of property acquired through a foreclosure proceeding or an acceptance of a deed in lieu of foreclosure. Balances are initially reflected at the estimated fair value less any estimated disposition costs, with subsequent adjustments made to reflect further declines in value. Any losses realized upon disposition of the property, and holding costs prior thereto, are charged against income. All properties are actively marketed to potential buyers.

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Federal Income Taxes – Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance, when in the opinion of Management, it is more likely than not that some portion or all deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted through the provision for income taxes for the effects of changes in tax laws and rates on the date of enactment. ASC Topic 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more-likely-than-not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. ASC Topic 740, "Income Taxes" also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties.

Advertising Expenses – Advertising costs are expensed as incurred.

Treasury Stock – The acquisition of treasury stock is recorded under the cost method. The subsequent disposition or sale of the treasury stock is recorded using the average cost method.

Wealth Management – Assets held in a fiduciary capacity are not assets of the Corporation and therefore are not included in the consolidated financial statements. The fair value of assets under management (including assets held at third party brokers) was $1.3 billion at December 31, 2024 and $1.2 billion at December 31, 2023.

Off-Balance Sheet Financial Instruments – In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded on the balance sheet when they are funded. The amount of any liability for the credit risk associated with off-balance sheet financial instruments is recorded in other liabilities and was $2.0 million at December 31, 2024 and December 31, 2023.

Stock-Based Compensation – The Corporation accounts for stock-based compensation in accordance with the ASC Topic 718, "Stock Compensation." ASC Topic 718 requires compensation costs related to share-based payment transactions to be recognized in the financial statements (with limited exceptions). The amount of compensation cost is measured based on the grant-date fair value of the equity or liability instruments issued and forfeitures are accounted for as they occur. Compensation cost is recognized over the period that an employee provides services in exchange for the award. The Corporation allows the employee to use shares to satisfy employer income tax withholding obligations.

Pension – The provision for pension expense was actuarially determined using the projected unit credit actuarial cost method. The funding policy is to contribute an amount sufficient to meet the requirements of ERISA, subject to Internal Revenue Code contribution limitations.

In accordance with ASC Topic 715, "Compensation – Retirement Benefits", the Corporation recognizes the plan's over-funded or under-funded status as an asset or liability with an offsetting adjustment to Accumulated Other Comprehensive Income (AOCI). ASC Topic 715 requires the determination of the fair value of a plan's assets at the company's year-end and the recognition of actuarial gains and losses, prior service costs or credits, transition assets or obligations as a component of AOCI. These amounts will be subsequently recognized as components of net periodic benefit costs. Further, actuarial gains and losses that arise in subsequent periods that are not initially recognized as a component of net periodic benefit costs will be recognized as a component of AOCI. Those amounts will subsequently be recorded as a component of net periodic benefit costs as they are amortized during future periods.

Earnings per share – Earnings per share are computed based on the weighted average number of shares outstanding during each year. The Corporation's basic earnings per share are calculated as net income divided by the weighted average number of shares outstanding. For diluted earnings per share, net income is divided by the weighted average number of shares outstanding plus the incremental number of shares added as a result of converting common stock equivalents, calculated using the treasury stock method. The Corporation's common stock equivalents consist of stock options and restricted stock awards.

A reconciliation of the weighted average shares outstanding used to calculate basic earnings per share and diluted earnings per share follows:

(Dollars and shares in thousands, except per share data)	**2024**	2023
Weighted average shares outstanding (basic)	**4,403**	4,374
Impact of common stock equivalents	**11**	7
Weighted average shares outstanding (diluted)	**4,414**	4,381
Anti-dilutive options excluded from calculation	**—**	—
Net income	**$ 11,099**	$ 13,598
Basic earnings per share	**$ 2.52**	$ 3.11
Diluted earnings per share	**$ 2.51**	$ 3.10

Segment Reporting – The Bank acts as an independent community financial services provider and offers traditional banking and related financial services to individual, business and government customers. Through its community offices and electronic banking applications, the Bank offers a full array of commercial and retail financial services, including the taking of time, savings and demand deposits; the making of commercial, consumer and mortgage loans; and providing safe deposit services. The Bank also performs personal, corporate, pension and fiduciary services through its Wealth Management Department. Prior to 2024, the Corporation had one reportable segment, Community Banking, that reflected the consolidated results of the Corporation.

Beginning in 2024, Management determined that its Wealth Management function qualified as a reportable segment, in addition to Community Banking, because of the amount of fee income it generates, its discrete financial information, and its management and review by its chief operating decision maker. Note 25 of the accompanying financial statements provides additional information on the reportable segments.

Comprehensive Income – Comprehensive income is reflected in the Consolidated Statements of Comprehensive Income and includes net income and unrealized gains or losses, net of tax, on investment securities, derivatives, reclassifications and the change in plan assets and benefit obligations on the Bank's pension plan, net of tax.

Reclassification – Certain prior period amounts may have been reclassified to conform to the current year's presentation. Such reclassifications did not affect reported net income.

Recent Accounting Pronouncements:

Recently adopted accounting standards

ASU 2023-01, Leases (Topic 842): Common Control Arrangements		
Description		This ASU requires entities to determine whether a related party arrangement between entities under common control is a lease. If the arrangement is determined to be a lease, an entity must classify and account for the lease on the same basis as an arrangement with a related party (on the basis of legally enforceable terms and conditions).
Effective Date		January 1, 2024
Effect on the Consolidated Financial Statements		The Corporation adopted the ASU in 2024 and it did not have an effect on its consolidated financial statements.

ASU 2023-02, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method		
Description		This ASU permits reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met.
Effective Date		January 1, 2024
Effect on the Consolidated Financial Statements		The Corporation adopted the ASU in 2024 and it did not have an effect on its consolidated financial statements.

ASU 2023-07, Segment Reporting (Topic 280): improvements to Reportable Segment Disclosures		
Description		This ASU is intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses.
Effective Date		Fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024
Effect on the Consolidated Financial Statements		The Corporation adopted the ASU as of December 31, 2024 and it did not have an effect on its consolidated financial statements.

Recently issued but not yet effective accounting standards

ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures		
Description		This ASU is intended to improve the transparency of income tax disclosures by requiring consistent categories and greater disaggregation of information in the rate reconciliation table and income taxes paid to be disaggregated by jurisdiction. It also includes certain amendments to improve the effectiveness of income tax disclosures.
Effective Date		January 1, 2025
Effect on the Consolidated Financial Statements		The ASU is not expected to have an impact on the Corporation's financial statements.

ASU 2023-06, Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative		
Description		This ASU incorporates certain U.S. Securities and Exchange Commission (SEC) disclosure requirements into the FASB Accounting Standards Codification. The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirement, and align the requirements in the Codification with the SEC's regulations.
Effective Date		The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited.
Effect on the Consolidated Financial Statements		The ASU is not expected to have an impact on the Corporation's financial statements.

ASU 2024-03, Income Statement Expense Disaggregation Disclosures (Subtopic 220-40) Disaggregation of Income Statement Expense		
Description		This ASU will change the disclosures about a public business entity's expenses and address requests from investors for more detailed information about the types of expenses (for example, employee compensation, depreciation, and amortization) in expense captions.
Effective Date		Fiscal years beginning after December 31, 2026 and interim periods within fiscal years beginning after December 31, 2027. Early adoption is permitted.
Effect on the Consolidated Financial Statements		The ASU is not expected to have an impact on the Corporation's financial statements.

Note 2. Regulatory Matters

The Bank is limited as to the amount it may lend to the Corporation, unless such loans are collateralized by specific obligations. State regulations also limit the amount of dividends the Bank can pay to the Corporation and are generally limited to the Bank's accumulated net earnings, which were $160.6 million at December 31, 2024. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgements by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Although not adopted in regulation form, the Pennsylvania Department of Banking utilizes capital standards requiring a minimum leverage capital ratio of 6% and a total risk-based capital ratio of 10%, defined substantially the same as those by the FDIC. Management believes, as of December 31, 2024, that the Bank met all capital adequacy requirements to which it is subject.

The Corporation and the Bank are subject to the capital requirements contained in the regulation generally referred to as Basel III. The Basel III standards were effective for the Corporation and the Bank, effective January 1, 2015. Basel III imposes significantly higher capital requirements and more restrictive leverage and liquidity ratios than those previously in place. The capital ratios to be considered "well capitalized" under Basel III are: (1) Common Equity Tier 1(CET1) of 6.5%, (2) Tier 1 Leverage of 5%, (3) Tier 1 Risk-Based Capital of 8%, and (4) Total Risk-Based Capital of 10%. The CET1 ratio is a new capital ratio under Basel III and the Tier 1 risk-based capital ratio of 8% has been increased from 6%. The rules also included changes in the risk weights of certain assets to better reflect credit and other risk exposures. In addition, a capital conservation buffer of 2.50% is applicable to all of the capital ratios except for the Tier 1 Leverage ratio. The capital conservation buffer is equal to the lowest value of the three applicable capital ratios less the regulatory minimum ("adequately capitalized") for each respective capital measurement. The Bank's capital conservation buffer at December 31, 2024 was 4.96%. Compliance with the capital conservation buffer is required in order to avoid limitations on certain capital distributions, especially dividends. As of December 31, 2024, the Bank was "well capitalized' under the Basel III requirements. For additional information on the capital ratios see the section titled Shareholders' Equity, and Table 13.

At December 31, 2024, the Corporation had $20.0 million of unsecured subordinated debt notes payable, $15.0 million which mature on September 1, 2030 and $5.0 million which mature on September 1, 2035. The notes are recorded on the consolidated balance sheet net of remaining debt issuance costs totaling $339 thousand at December 31, 2024, which is being amortized on a pro-rata basis over a 5-year and 10-year period, based on the maturity dates of the notes, on an effective interest method. The subordinated notes totaling $15.0 million have a fixed interest rate of 5.00% through September 1, 2025, then convert to a variable rate of 90-day Secured Overnight Financing Rate (SOFR) plus 4.93% for the applicable interest periods through maturity. The subordinated notes totaling $5.0 million have a fixed interest rate of 5.25% through September 1, 2030, then convert to a variable rate of 90-day SOFR plus 4.92% for the applicable interest periods through maturity. The Corporation may, at its option, redeem the notes, in whole or in part, at any time 5-years prior to the maturity. The notes are structured to qualify as Tier 2 Capital for the Corporation and there are no debt covenants on the notes.

In 2019, the Community Bank Leverage Ratio (CBLR) was approved by federal banking agencies as an optional capital measure available to Qualifying Community Banking Organizations (QCBO). If a bank qualifies as a QCBR and maintains a CBLR of 9% or greater, the bank would be considered "well-capitalized" for regulatory capital purposes and exempt from complying with the Basel III risk-based capital rule. The CBLR rule was effective January 1, 2020 and banks could opt-in through an election in the first quarter 2020 regulatory filings. The Bank meets the criteria of a QCBO but did not opt-in to the CBLR.

The consolidated asset limit on small bank holding companies is $3.0 billion and a company with assets under that limit is not subject to the consolidated capital rules but may file reports that include capital amounts and ratios. The Corporation has elected to file those reports.

The following table presents the regulatory capital ratio requirements for the Corporation and the Bank.

	As of December 31, 2024					
			Regulatory Ratios			
			Adequately Capitalized Minimum		Well Capitalized Minimum	
	Actual					
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Risk-based Capital Ratio (1)						
Corporation	**$ 171,208**	**11.31%**	**$ 68,095**	**N/A**	**N/A**	**N/A**
Bank	**179,837**	**11.71%**	**69,088**	**4.50%**	**$ 99,794**	**6.50%**
Tier 1 Risk-based Capital Ratio (2)						
Corporation	**$ 171,208**	**11.31%**	**$ 90,793**	**N/A**	**N/A**	**N/A**
Bank	**179,837**	**11.71%**	**92,117**	**6.00%**	**$ 122,823**	**8.00%**
Total Risk-based Capital Ratio (3)						
Corporation	**$ 209,603**	**13.85%**	**$ 121,057**	**N/A**	**N/A**	**N/A**
Bank	**199,033**	**12.96%**	**122,823**	**8.00%**	**$ 153,529**	**10.00%**
Tier 1 Leverage Ratio (4)						
Corporation	**$ 171,208**	**7.92%**	**$ 86,449**	**N/A**	**N/A**	**N/A**
Bank	**179,837**	**8.20%**	**87,715**	**4.00%**	**$ 109,644**	**5.00%**

	As of December 31, 2023					
			Regulatory Ratios			
			Adequately Capitalized Minimum		Well Capitalized Minimum	
	Actual					
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Risk-based Capital Ratio (1)						
Corporation	$ 164,060	11.82%	$ 62,463	N/A	N/A	N/A
Bank	171,932	12.38%	62,496	4.50%	$ 90,271	6.50%
Tier 1 Risk-based Capital Ratio (2)						
Corporation	$ 164,060	11.82%	$ 83,284	N/A	N/A	N/A
Bank	171,932	12.38%	83,327	6.00%	$ 111,103	8.00%
Total Risk-based Capital Ratio (3)						
Corporation	$ 200,589	14.45%	$ 111,046	N/A	N/A	N/A
Bank	189,300	13.63%	111,103	8.00%	$ 138,879	10.00%
Tier 1 Leverage Ratio (4)						
Corporation	$ 164,060	9.01%	$ 72,833	N/A	N/A	N/A
Bank	171,932	9.44%	72,871	4.00%	$ 91,088	5.00%

(1) Common equity Tier 1 capital / total risk-weighted assets
(2) Tier 1 capital / total risk-weighted assets
(3) Total risk-based capital / total risk-weighted assets
(4) Tier 1 capital / average quarterly assets

Note 3. Restricted Cash Balances

The Federal Reserve's reserve requirement on the Bank's deposit liabilities is 0%. Therefore, the Bank was not required to hold any reserves at December 31, 2024 and 2023. At December 31, 2024, the Corporation had posted cash collateral of $5.2 million to a counterparty in a derivative transaction.

Note 4. Investments

Available for Sale (AFS) Securities

The following table summarizes the amortized cost and fair value of securities available-for-sale at December 31, 2024 and 2023 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss).

The amortized cost and estimated fair value of investment securities available for sale as of December 31, 2024 and 2023 is as follows:

(Dollars in thousands) December 31, 2024	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury	$ 36,192	$ —	$ (4,395)	$ 31,797
Municipal	156,528	37	(22,973)	133,592
Corporate	26,356	1	(2,133)	24,224
Agency mortgage & asset-backed	180,423	178	(10,780)	169,821
Non-Agency mortgage & asset-backed	154,554	45	(5,429)	149,170
Total	$ 554,053	$ 261	$ (45,710)	$ 508,604

(Dollars in thousands) December 31, 2023	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury	$ 83,494	$ —	$ (9,403)	$ 74,091
Municipal	161,339	—	(22,721)	138,618
Corporate	26,336	—	(3,138)	23,198
Agency mortgage & asset-backed	142,565	90	(10,064)	132,591
Non-Agency mortgage & asset-backed	108,185	48	(4,228)	104,005
Total	$ 521,919	$ 138	$ (49,554)	$ 472,503

At December 31, 2024 and 2023, the fair value of investment securities pledged to secure public funds and trust deposits totaled $151.7 million and $207.4 million, respectively. The Bank has no investment in a single issuer that exceeds 10% of shareholders equity except U.S. Treasuries.

The amortized cost and estimated fair value of debt securities at December 31, 2024, by contractual maturity are shown below. Actual maturities may differ from contractual maturities because of prepayment or call options embedded in the securities. Mortgage-backed and asset-backed securities without defined maturity dates are reported on a separate line.

(Dollars in thousands)	Amortized cost	Fair value
Due in one year or less	$ —	$ —
Due after one year through five years	42,038	38,015
Due after five years through ten years	87,395	75,855
Due after ten years	89,643	75,743
	219,076	189,613
Mortgage-backed and asset-backed	334,977	318,991
Total	$ 554,053	$ 508,604

The composition of the net realized securities (losses) gains for the years ended December 31 is as follows:

(Dollars in thousands)	2024	2023
Proceeds	$ 42,413	$ 40,113
Gross gains realized	—	12
Gross losses realized	(4,267)	(1,131)
Net (losses)/gains realized	$ (4,267)	$ (1,119)
Tax benefit on net losses realized	$ 896	$ 235

Allowance for Credit Losses:

The following table reflects the unrealized losses in the investment portfolio, aggregated by investment category, length of time that individual securities have been in a continuous unrealized loss position and the number of securities in each category as of December 31, 2024 and 2023. Securities in an unrealized loss position are evaluated at least quarterly for impairment. For this evaluation, the Bank considers: (1) the extent to which the fair value is less than amortized cost; (2) adverse conditions specifically related to the security, industry or geographic area; (3) the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future; (4) failure of the issuer of the security to make scheduled interest or principal payments; and (5) any changes to the rating of the security by a rating agency. In addition, the Bank considers whether it intends to sell these securities or whether it will be forced to sell these securities before the earlier of amortized cost recovery or maturity. The Bank does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost. The debt securities in a loss position and subject to evaluation at December 31, 2024 and 2023, were determined not to be attributable to credit related factors; therefore, the Bank does not have an allowance for credit loss for these investments.

	December 31, 2024								
	Less than 12 months			12 months or more			Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count
U.S. Treasury	$ —	$ —	—	$ 31,797	$ (4,395)	13	$ 31,797	$ (4,395)	13
Municipal	—	—	—	132,550	(22,973)	164	132,550	(22,973)	164
Corporate	—	—	—	23,237	(2,133)	50	23,237	(2,133)	50
Agency mortgage & asset-backed	55,121	(2,251)	18	101,171	(8,529)	217	156,292	(10,780)	235
Non-Agency mortgage & asset-backed	79,422	(2,974)	26	53,615	(2,455)	50	133,037	(5,429)	76
Total temporarily impaired	$ 134,543	$ (5,225)	44	$ 342,370	$ (40,485)	494	$ 476,913	$ (45,710)	538

	December 31, 2023								
	Less than 12 months			12 months or more			Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count
U.S. Treasury	$ —	$ —	—	$ 74,091	$ (9,403)	28	$ 74,091	$ (9,403)	28
Municipal	—	—	—	138,618	(22,721)	168	138,618	(22,721)	168
Corporate	1,483	(167)	5	21,715	(2,971)	46	23,198	(3,138)	51
Agency mortgage & asset-backed	6,227	(186)	19	118,053	(9,878)	223	124,280	(10,064)	242
Non-Agency mortgage & asset-backed	47,928	(560)	19	50,071	(3,668)	56	97,999	(4,228)	75
Total temporarily impaired	$ 55,638	$ (913)	43	$ 402,548	$ (48,641)	521	$ 458,186	$ (49,554)	564

Equity Securities at fair value

The Corporation owns one equity investment with a readily determinable fair value. At December 31, 2024 and 2023, this investment was reported at a fair value of $166 thousand and $427 thousand, respectively, with changes in value reported through income.

Note 5. Loans

The Bank reports its loan portfolio based on the primary collateral of the loan. It further classifies these loans by the primary purpose, either consumer or commercial. The Bank's mortgage loans include long-term loans to individuals and businesses secured by mortgages on the borrower's real property. Construction loans are made to finance the purchase of land and the construction of residential and commercial buildings thereon and are secured by mortgages on real estate. Commercial loans are made to businesses of various sizes for a variety of purposes including construction, property, plant and equipment, and working capital. Commercial loans also include loans to government municipalities. Commercial lending is concentrated in the Bank's primary market, but also includes purchased loan participations. Consumer loans are comprised of installment, home equity and unsecured personal lines of credit.

Each class of loans involves a different kind of risk. However, risk factors such as changes in interest rates, general economic conditions and changes in collateral values are common across all classes. The risk of each loan class is presented below.

Residential Real Estate 1-4 family

The largest risk in residential real estate loans to retail customers is the borrower's inability to repay the loan due to the loss of the primary source of income. The Bank attempts to mitigate this risk through prudent underwriting standards including employment history, current financial condition and credit history. These loans are generally owner occupied and serve as the borrower's primary residence. The Bank usually holds a first lien position on these properties but may hold a second lien position in some home equity loans or lines of credit. Commercial purpose loans, secured by residential real estate, are usually dependent upon repayment from the rental income or other business purposes. These loans are generally non-owner occupied. In addition to the real estate collateral, these loans may have personal guarantees or UCC filings on other business assets. If a payment default occurs on a 1-4 family residential real estate loan, the collateral serves as a source of repayment, but may be subject to a change in value due to economic conditions.

Residential Real Estate Construction

This class includes loans to individuals for construction of a primary residence and to contractors and developers to improve real estate and construct residential properties. Construction loans to individuals generally bear the same risk as 1-4 family residential loans. Additional risks may include cost overruns, delays in construction or contractor problems.

Loans to contractors and developers are primarily dependent on the sale of improved lots or finished homes for repayment. Risks associated with these loans include the borrower's character and capacity to complete a development, the effect of economic conditions on the valuation of lots or homes, cost overruns, delays in construction or contractor problems. In addition to real estate collateral, these loans may have personal guarantees or UCC filings on other business assets, depending on the financial strength and experience of the developer. Real estate construction loans are monitored on a regular basis by either an independent third party or the responsible loan officer, depending on the size and complexity of the project. This monitoring process includes at a minimum, the submission of invoices or AIA documents detailing the cost incurred by the borrower, on-site inspections, and an authorizing signature for disbursement of funds.

Commercial Real Estate

Commercial real estate loans may be secured by various types of commercial property including retail space, office buildings, warehouses, hotels and motels, manufacturing facilities and, agricultural land.

Commercial real estate loans present a higher level of risk than residential real estate loans. Repayment of these loans is normally dependent on cash-flow generated by the operation of a business that utilizes the real estate. The successful operation of the business, and therefore repayment ability, may be affected by general economic conditions outside of the control of the operator. On most commercial real estate loans ongoing monitoring of cash flow and other financial performance indicators is completed annually through financial statement analysis. In addition, the value of the collateral may be negatively affected by economic conditions and may be insufficient to repay the loan in the event of default. In the event of foreclosure, commercial real estate may be more difficult to liquidate than residential real estate.

Commercial

Commercial loans are made for various business purposes to finance equipment, inventory, accounts receivables, and operating liquidity. These loans are generally secured by business assets or equipment, non-real estate collateral and/or personal guarantees.

Commercial loans present a higher level of credit risk than other loans because repayment ability is usually dependent on cash-flow from a business operation that can be affected by general economic conditions. On most commercial loans ongoing monitoring of cash flow and other financial performance indicators occur at least annually through financial statement analysis. In the event of a default, collateral for these loans may be more difficult to liquidate, and the valuation of the collateral may decline more quickly than loans secured by other types of collateral.

Loans to governmental municipalities are also included in the Commercial class. These loans generally have less risk than Commercial & Industrial (C&I) loans due to the taxing authority of the municipality and its ability to assess fees on services.

Consumer

These loans are made for a variety of reasons to consumers and include term loans and personal lines-of credit. The loans may be secured or unsecured. Repayment is primarily dependent on the income of the borrower and to a lesser extent the sale of collateral. The underwriting of these loans is based on the consumer's ability and willingness to repay and is determined by the borrower's employment history, current financial condition and credit background. Collateral for these loans, if any, usually depreciates quickly and therefore, may not be adequate to repay the loan if it is repossessed. Therefore, the overall health of the economy, including unemployment rates and wages, will have an effect on the credit quality in this loan class.

A summary of loans outstanding, by class, at December 31 is as follows:

(Dollars in thousands)	**2024**	2023
Residential Real Estate 1-4 Family		
Consumer first liens	**$ 181,780**	$ 142,017
Commercial first lien	**58,821**	63,271
Total first liens	**240,601**	205,288
Consumer junior liens and lines of credit	**76,035**	68,752
Commercial junior liens and lines of credit	**6,199**	3,809
Total junior liens and lines of credit	**82,234**	72,561
Total residential real estate 1-4 family	**322,835**	277,849
Residential real estate - construction		
Consumer	**20,742**	13,837
Commercial	**11,685**	12,063
Total residential real estate construction	**32,427**	25,900
Commercial real estate	**803,365**	703,767
Commercial	**230,597**	242,654
Total commercial	**1,033,962**	946,421
Consumer	**8,853**	6,815
	1,398,077	1,256,985
Less: Allowance for credit losses	**(17,653)**	(16,052)
Net Loans	**$ 1,380,424**	$ 1,240,933
Included in the loan balances are the following:		
Net unamortized deferred loan costs	**$ 1,766**	$ 1,615
Loans pledged as collateral for borrowings and commitments from:		
FHLB	**$ 775,410**	$ 699,527
Federal Reserve Bank	**96,592**	83,482
Total	**$ 872,002**	$ 783,009

Loans to directors and executive officers and related interests and affiliated enterprises were as follows:

(Dollars in thousands)	**2024**	2023
Balance at beginning of year	$ **11,545**	$ 13,283
New loans made	**18,476**	8,870
Repayments	**(18,278)**	(10,608)
Balance at end of year	$ **11,743**	$ 11,545

Note 6. Loan Quality and Allowance for Credit Losses

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, and current economic trends, among other factors. Management utilizes a risk rating scale ranging from 1-Prime to 9-Loss to evaluate loan quality. This risk rating scale is used primarily for commercial purpose loans. Consumer purpose loans are identified as either performing or nonperforming based on the payment status of the loans. Nonperforming consumer loans are loans that are nonaccrual or 90 days or more past due and still accruing. The Bank uses the following definitions for risk ratings:

Pass (1-5): are considered pass credits with lower or average risk and are not otherwise classified.

OAEM (6): Loans classified as OAEM have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the borrower's credit position at some future date.

Substandard (7): Loans classified as Substandard are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful (8): Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the pool evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the sale of the collateral, the expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for any discounts and selling costs as appropriate.

Management monitors loan performance on a monthly basis and performs a quarterly evaluation of the adequacy of the Allowance for Credit Loss for loans (ACL). The Bank begins enhanced monitoring of all loans rated 6–OAEM or worse and obtains a new appraisal or asset valuation for any loans placed on nonaccrual and rated 7 - Substandard or worse. Management, at its discretion, may determine that additional adjustments to the appraisal or valuation are required. Valuation adjustments will be made as necessary based on factors, including, but not limited to: the economy, deferred maintenance, industry, type of property/equipment, age of the appraisal, etc. and the knowledge Management has about a particular situation. In addition, the cost to sell or liquidate the collateral is also estimated and deducted from the valuation in order to determine the net realizable value to the Bank. When determining the ACL, certain factors involved in the evaluation are inherently subjective and require material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows. Management monitors the adequacy of the ACL on an ongoing basis and reports its adequacy quarterly to the Enterprise Risk Management Committee of the Board of Directors. Management believes the ACL at December 31, 2024 is adequate.

The following table presents loans by year of origination and internally assigned risk ratings as of December 31, 2024:

(Dollars in thousands)

As of December 31, 2024	Term Loans Amortized Cost Basis by Origination Year 2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Residential real estate 1-4 family:									
Commercial:									
Risk rating:									
Pass (1-5)	$ 5,306	$ 9,436	$ 7,529	$ 10,133	$ 8,099	$ 20,251	$ 4,079	$ —	$ 64,833
OAEM (6)	—	—	—	—	—	—	—	—	—
Substandard (7)	—	—	—	—	—	—	187	—	187
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total Commercial	5,306	9,436	7,529	10,133	8,099	20,251	4,266	—	65,020
Consumer:									
Performing	36,214	67,248	31,290	14,303	9,014	27,744	54,147	17,855	257,815
Nonperforming	—	—	—	—	—	—	—	—	—
Total Consumer	36,214	67,248	31,290	14,303	9,014	27,744	54,147	17,855	257,815
Total	$ 41,520	$ 76,684	$ 38,819	$ 24,436	$ 17,113	$ 47,995	$ 58,413	$ 17,855	$ 322,835
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate construction:									
Commercial:									
Risk rating:									
Pass (1-5)	$ 5,582	$ 3,306	$ 403	$ 1,150	$ 159	$ 1,085	$ —	$ —	$ 11,685
OAEM (6)	—	—	—	—	—	—	—	—	—
Substandard (7)	—	—	—	—	—	—	—	—	—
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total Commercial	5,582	3,306	403	1,150	159	1,085	—	—	11,685
Consumer:									
Performing	20,742	—	—	—	—	—	—	—	20,742
Nonperforming	—	—	—	—	—	—	—	—	—
Total Consumer	20,742	—	—	—	—	—	—	—	20,742
Total	$ 26,324	$ 3,306	$ 403	$ 1,150	$ 159	$ 1,085	$ —	$ —	$ 32,427
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate:									
Risk rating:									
Pass (1-5)	$ 95,410	$ 221,889	$ 106,385	$ 93,228	$ 32,546	$ 218,875	$ 16,290	$ —	$ 784,623
OAEM (6)	—	—	1,772	1,711	6,624	—	—	—	10,107
Substandard (7)	—	6,301	266	—	—	2,018	50	—	8,635
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total	$ 95,410	$ 228,190	$ 108,423	$ 94,939	$ 39,170	$ 220,893	$ 16,340	$ —	$ 803,365
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ (2)	$ —	$ —	$ (2)
Commercial:									
Risk rating:									
Pass (1-5)	$ 25,398	$ 16,289	$ 27,545	$ 37,927	$ 18,196	$ 60,126	$ 42,595	$ —	$ 228,076
OAEM (6)	—	11	420	1,500	9	—	250	—	2,190
Substandard (7)	—	—	—	—	58	—	273	—	331
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total	$ 25,398	$ 16,300	$ 27,965	$ 39,427	$ 18,263	$ 60,126	$ 43,118	$ —	$ 230,597
Current period gross charge-offs	$ (11)	$ —	$ (287)	$ —	$ —	$ —	$ (161)	$ —	$ (459)
Consumer:									
Performing	2,289	1,140	386	1,682	36	27	3,291	—	8,851
Nonperforming	—	—	—	1	—	—	1	—	2
Total	$ 2,289	$ 1,140	$ 386	$ 1,683	$ 36	$ 27	$ 3,292	$ —	$ 8,853
Current period gross charge-offs	$ (44)	$ —	$ —	$ —	$ (6)	$ —	$ (49)	$ —	$ (99)

The following table presents loans by year of origination and internally assigned risk ratings as of December 31, 2023:

(Dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
As of December 31, 2023	**2023**	2022	2021	2020	2019	Prior			Total
Residential real estate 1-4 family:									
Commercial:									
Risk rating:									
Pass (1-5)	$ 9,867	$ 9,088	$ 11,038	$ 9,691	$ 2,433	$ 22,906	$ 2,057	$ —	$ 67,080
OAEM (6)	—	—	—	—	—	—	—	—	—
Substandard (7)	—	—	—	—	—	—	—	—	—
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total Commercial	9,867	9,088	11,038	9,691	2,433	22,906	2,057	—	67,080
Consumer:									
Performing	53,128	34,136	15,625	10,245	5,222	28,423	43,968	20,022	210,769
Nonperforming	—	—	—	—	—	—	—	—	—
Total Consumer	53,128	34,136	15,625	10,245	5,222	28,423	43,968	20,022	210,769
Total	$ 62,995	$ 43,224	$ 26,663	$ 19,936	$ 7,655	$ 51,329	$ 46,025	$ 20,022	$ 277,849
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate construction:									
Commercial:									
Risk rating:									
Pass (1-5)	$ 6,845	$ 2,209	$ 1,289	$ 214	$ —	$ 1,506	$ —	$ —	$ 12,063
OAEM (6)	—	—	—	—	—	—	—	—	—
Substandard (7)	—	—	—	—	—	—	—	—	—
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total Commercial	6,845	2,209	1,289	214	—	1,506	—	—	12,063
Consumer:									
Performing	13,837	—	—	—	—	—	—	—	13,837
Nonperforming	—	—	—	—	—	—	—	—	—
Total Consumer	13,837	—	—	—	—	—	—	—	13,837
Total	$ 20,682	$ 2,209	$ 1,289	$ 214	$ —	$ 1,506	$ —	$ —	$ 25,900
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate:									
Risk rating:									
Pass (1-5)	$ 180,052	$ 110,886	$ 98,540	$ 34,307	$ 38,603	$ 214,179	$ 10,567	$ —	$ 687,134
OAEM (6)	2,955	1,350	1,000	6,823	—	2,182	139	—	14,449
Substandard (7)	—	—	—	—	—	2,134	50	—	2,184
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total	$ 183,007	$ 112,236	$ 99,540	$ 41,130	$ 38,603	$ 218,495	$ 10,756	$ —	$ 703,767
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial:									
Risk rating:									
Pass (1-5)	$ 34,851	$ 33,983	$ 45,754	$ 22,847	$ 3,579	$ 64,542	$ 36,508	$ —	$ 242,064
OAEM (6)	—	—	—	—	—	—	—	—	—
Substandard (7)	—	317	—	—	—	—	273	—	590
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total	$ 34,851	$ 34,300	$ 45,754	$ 22,847	$ 3,579	$ 64,542	$ 36,781	$ —	$ 242,654
Current period gross charge-offs	$ (125)	$ —	$ (130)	$ —	$ —	$ —	$ (50)	$ —	$ (305)
Consumer:									
Performing	1,863	669	1,985	148	80	5	2,060	—	6,810
Nonperforming	—	—	—	—	—	—	5	—	5
Total	$ 1,863	$ 669	$ 1,985	$ 148	$ 80	$ 5	$ 2,065	$ —	$ 6,815
Current period gross charge-offs	$ (63)	$ —	$ (10)	$ (2)	$ (6)	$ —	$ (36)	$ —	$ (117)

The following presents the amortized cost basis of loans on nonaccrual status and loans past due over 90 days and still accruing as of December 31, 2024 and 2023:

(Dollars in thousands)	December 31, 2024 Nonaccrual and Loans Past Due Over 90 Days+			December 31, 2023 Nonaccrual and Loans Past Due Over 90 Days+		
	Nonaccrual Without ACL	Nonaccrual With ACL	Loans Past Due Over 90 Days Still Accruing	Nonaccrual Without ACL	Nonaccrual With ACL	Loans Past Due Over 90 Days Still Accruing
December 31, 2024						
Residential Real Estate 1-4 Family						
First liens	$ —	$ —	$ —	$ —	$ —	$ —
Junior liens and lines of credit	—	—	—	—	—	—
Total	—	—	—	—	—	—
Residential real estate - construction	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—
Commercial	266	—	—	147	—	—
Consumer	—	—	2	—	—	5
Total	$ 266	$ —	$ 2	$ 147	$ —	$ 5

Delinquent loans are a result of borrowers' cash flow and/or alternative sources of cash being insufficient to repay loans. The Bank's likelihood of collateral liquidation to repay the loans becomes more probable the further behind a borrower falls, particularly when loans reach 90 days or more past due. Management monitors the performance status of loans by the use of an aging report. The aging report can provide an early indicator of loans that may become severely delinquent and possibly result in a loss to the Bank.

The following table presents the aging of payments in the loan portfolio as of December 31, 2024 and 2023:

(Dollars in thousands)

	Loans Past Due			Total		Total
	30-59 Days	60-89 Days	90 Days+	Past Due	Current	Loans
December 31, 2024						
Residential Real Estate 1-4 Family						
First liens	$ 203	$ 640	$ —	$ 843	$ 239,758	$ 240,601
Junior liens and lines of credit	241	160	—	401	81,833	82,234
Total	444	800	—	1,244	321,591	322,835
Residential real estate - construction	—	—	—	—	32,427	32,427
Commercial real estate	380	219	—	599	802,766	803,365
Commercial	747	50	266	1,063	229,534	230,597
Consumer	30	4	2	36	8,817	8,853
Total	$ 1,601	$ 1,073	$ 268	$ 2,942	$ 1,395,135	$ 1,398,077

	Loans Past Due			Total		Total
December 31, 2023	30-59 Days	60-89 Days	90 Days+	Past Due	Current	Loans
Residential Real Estate 1-4 Family						
First liens	$ 62	$ 394	$ —	$ 456	$ 204,832	$ 205,288
Junior liens and lines of credit	239	228	—	467	72,094	72,561
Total	301	622	—	923	276,926	277,849
Residential real estate - construction	—	—	—	—	25,900	25,900
Commercial real estate	3,232	—	—	3,232	700,535	703,767
Commercial	542	112	147	801	241,853	242,654
Consumer	21	12	5	38	6,777	6,815
Total	$ 4,096	$ 746	$ 152	$ 4,994	$ 1,251,991	$ 1,256,985

At December 31, 2024 and 2023, the Bank had $0 of residential properties in the process of foreclosure. Interest not recognized on nonaccrual loans was $8 thousand for the year ended December 31, 2024 and $6 thousand for the year ended December 31, 2023.

On January 1, 2023, The Bank adopted ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" ("ASU 2022-02"), which eliminated the accounting guidance for troubled debt restructurings ("TDRs") while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral.

No loan modifications were made to borrowers experiencing financial difficulties during 2024 and 2023.

Allowance for Credit Losses:

The following table shows the activity in the Allowance for Credit Loss (ACL), for the years ended December 31, 2024 and 2023:

	Residential Real Estate 1-4 Family							
(Dollars in thousands)	First Liens	Junior Liens & Lines of Credit	Construction	Commercial Real Estate	Commercial	Consumer	Unallocated	Total
ACL at December 31, 2023	**$ 1,296**	**$ 419**	**$ 296**	**$ 10,657**	**$ 3,290**	**$ 94**	**$ —**	**$ 16,052**
Charge-offs	**—**	**—**	**—**	**(2)**	**(459)**	**(99)**	**—**	**(560)**
Recoveries	**3**	**—**	**14**	**4**	**130**	**35**	**—**	**186**
Provision	**198**	**42**	**66**	**1,345**	**221**	**103**	**—**	**1,975**
ACL at December 31, 2024	**$ 1,497**	**$ 461**	**$ 376**	**$ 12,004**	**$ 3,182**	**$ 133**	**$ —**	**$ 17,653**
ALL at December 31, 2022	$ 459	$ 234	$ 343	$ 7,493	$ 4,846	$ 133	$ 667	$ 14,175
Impact of adopting CECL on 1-1-23	1,096	493	(95)	584	(1,907)	(40)	(667)	(536)
Charge-offs	—	—	—	—	(305)	(117)	—	(422)
Recoveries	2	—	49	1	112	82	—	246
Provision	(261)	(308)	(1)	2,579	544	36	—	2,589
ACL at December 31, 2023	$ 1,296	$ 419	$ 296	$ 10,657	$ 3,290	$ 94	$ —	$ 16,052

At December 31, 2024, there was one collateral dependent loan for $266 thousand secured by real estate. There were no collateral dependent loans at December 31, 2023.

Note 7. Premises and Equipment

The components of premises and equipment were as follows for the periods ending:

		For the years ended December 31,	
(Dollars in thousands)	Estimated Life	**2024**	2023
Land		**$ 3,935**	$ 3,607
Buildings and leasehold improvements	15 - 30 years, or lease term	**34,880**	33,947
Furniture, fixtures and equipment	3 - 10 years	**10,241**	11,097
Total cost		**49,056**	48,651
Less: Accumulated depreciation		**(20,017)**	(20,108)
Net premises and equipment		**$ 29,039**	$ 28,543

The following table shows the amount of depreciation for the years ended December 31:

	2024	2023
Depreciation expense	**$ 1,758**	$ 2,137

Note 8. Leases

The Corporation leases various assets in the course of its operations that are subject to recognition on the balance sheet. The Corporation considers all of its leases to be operating leases and it has no finance leases. The leased assets may include equipment, and buildings and land (collectively real estate). The equipment leases are shorter-term than the real estate leases, and generally have a fixed payment over a defined term without renewal options. Certain equipment leases have purchase options and it was determined the option was not reasonably certain to be exercised. The real estate leases are longer-term and may contain renewal options after the

initial term, but none of the real estate leases contain a purchase option. The renewal options on real estate leases were reviewed and if it was determined the option was reasonably certain to be renewed, the option term was considered in the determination of the lease liability. There is only one real estate lease with a variable payment based on an index included in the lease liability. None of the leases contain any restrictive covenants and there are no significant leases that have not yet commenced. The discount rate used to determine the lease liability is based on the Bank's fully secured borrowing rate from the Federal Home Loan Bank for a term similar to the lease term. Operating lease expense is included in net occupancy expense in the consolidated statements of income.

Lease Cost:
The components of total lease cost were as follows for the period ending:

	For the years ended December 31,	
(Dollars in thousands)	**2024**	2023
Operating lease cost	**$ 764**	$ 815
Short-term lease cost	**3**	16
Variable lease cost	**156**	147
Total lease cost	**$ 923**	$ 978

Supplemental Lease Information:

(Dollars in thousands)	For the years ended December 31,	
Cash paid for amounts included in the measurement of lease liabilities:	**2024**	2023
Operating cash flows from operating leases	$ **733**	$ 791
Weighted-average remaining lease term (years)	**11.6**	12.0
Weighted-average discount rate	**3.48%**	3.40%

Lease Obligations:
Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023 are as follows:

(Dollars in thousands)	
2025	$ **681**
2026	**564**
2027	**421**
2028	**393**
2029	**397**
2030 and beyond	**2,808**
Undiscounted cash flows	**5,264**
Imputed interest	**(1,001)**
Total lease liability	$ **4,263**

Note 9. Other Real Estate Owned

The Bank had no other real estate owned at December 31, 2024 and 2023.

Note 10. Goodwill

The Bank has $9.0 million of goodwill recorded on its balance sheet as the result of corporate acquisitions. Goodwill is not amortized, nor deductible for tax purposes. However, Goodwill is tested for impairment at least annually in accordance with ASC Topic 350. Goodwill was tested for impairment as of August 31, 2024. The 2024 test was conducted using a qualitative assessment method that requires the use of significant assumptions in order to make a determination of likely impairment. These assumptions may include, but are not limited to: macroeconomic factors, banking industry conditions, banking merger and acquisition trends, the Bank's historical financial performance, the Corporation's stock price, forecast Bank financial performance, and change of control premiums. Management determined the Bank's goodwill was not likely impaired in 2024 and did not make a further assessment.

The 2023 impairment test was also conducted using a qualitative assessment and Management determined the Bank's goodwill was not likely impaired in 2023 and did not make a further assessment.

Note 11. Deposits

Deposits are summarized as follows at December 31:

(Dollars in thousands)	**2024**	2023
Noninterest-bearing checking	**$ 290,346**	$ 273,050
Interest-bearing checking	**417,870**	454,517
Money management	**694,880**	572,058
Savings	**96,646**	105,907
Total interest-bearing checking and savings	**1,209,396**	1,132,482
Time deposits	**315,905**	132,446
Total deposits	**$ 1,815,647**	$ 1,537,978
Overdrawn deposit accounts reclassified as loans	**$ 136**	$ 160

Time deposits greater than $250,000 at December 31, 2024 and 2023 were $77.4 million and $44.4 million, respectively.

At December 31, 2024 the scheduled maturities of time deposits are as follows:

(Dollars in thousands)	**Time Deposits**
2025	**$ 208,218**
2026	**8,999**
2027	**24,864**
2028	**5,104**
2029	**68,720**
Total	**$ 315,905**

The deposits of directors, executive officers, related interests and affiliated enterprises totaled $4.1 million and $4.8 million at December 31, 2024 and 2023, respectively.

Note 12. Other Borrowings

The Bank has access to short-term borrowings from the FHLB in the form of a revolving term commitment used to fund the short-term liquidity needs of the Bank. These borrowings reprice on a daily basis and the interest rate fluctuates with short-term market interest rates. The Bank had no short-term borrowings at December 31, 2024 and 2023.

At December 31, 2024 and 2023, other borrowings were:

	December 31	
(Dollars in thousands)	**2024**	2023
FHLB maturing January 12, 2027, with fixed rate at 4.32%	**$ 200,000**	$ -
FHLB maturities through 2024, floating with SOFR, at rates from 5.82% to 5.83%, averaging 5.82%	**-**	40,000
Federal Reserve maturities through 2024, with fixed rates from 4.38% to 4.93%, averaging 4.58%	**-**	90,000
	$ 200,000	$ 130,000

The Bank's maximum borrowing capacity with the FHLB at December 31, 2024 was $562.7 million with $362.7 million available to borrow. This borrowing capacity is secured by a Blanket Pledge Agreement with FHLB on the Bank's real estate loan portfolio ($775.4 million) together with pledged securities with a fair value of $28.0 million.

Scheduled payments on other borrowings over the next five years are as follows:

(Dollars in thousands)	
2025	$ -
2026	-
2027	200,000
2028	-
2029	-
	$ 200,000

The Bank has established credit at the Federal Reserve Discount Window and as of year-end had the ability to borrow approximately $65 million. The Bank also has $76.0 million in unsecured lines of credit at three correspondent banks.

Note 13. Subordinate Notes

At December 31, 2024 and 2023, the Corporation had $20.0 million of unsecured subordinated debt notes payable, $15.0 million which mature on September 1, 2030 and $5.0 million which mature on September 1, 2035. The notes are recorded on the consolidated balance sheet net of remaining debt issuance costs totaling $339 thousand at December 31, 2024 and $377.0 thousand at December 31, 2023, which is being amortized on a pro-rata basis, based on the maturity dates of the notes, on an effective interest method. The subordinated notes totaling $15.0 million have a fixed interest rate of 5.00% through September 1, 2025, then convert to a variable rate of 90-day Secured Overnight Financing Rate (SOFR) plus 4.93% for the applicable interest periods through maturity. The subordinated notes totaling $5.0 million have a fixed interest rate of 5.25% through September 1, 2030, then convert to a variable rate of 90-day SOFR plus 4.92% for the applicable interest periods through maturity. The Corporation may, at its option, redeem the notes, in whole or in part, at any time 5-years prior to the maturity. The notes are structured to qualify as Tier 2 Capital for the Corporation and there are no debt covenants on the notes.

Note 14. Income Taxes

The temporary differences which give rise to significant portions of deferred tax assets and liabilities at December 31 are as follows:

(Dollars in thousands)		
Deferred Tax Assets	**2024**	2023
Allowance for credit losses	**$ 3,810**	$ 3,440
Deferred compensation	**951**	939
Purchase accounting	**20**	20
Accumulated other comprehensive loss	**9,439**	10,882
Lease liabilities	**920**	1,032
Other	**605**	596
Total gross deferred tax assets	**15,745**	16,909
Deferred Tax Liabilities		
Depreciation	**2,936**	3,023
Right-of-use asset	**886**	1,002
Joint ventures and partnerships	**48**	43
Pension	**663**	694
Deferred loan fees and costs, net	**381**	346
Total gross deferred tax liabilities	**4,914**	5,108
Net deferred tax asset	**$ 10,831**	$ 11,801

In assessing the realizability of deferred tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, Management believes it is more likely than not that the Bank will realize the benefits of these deferred tax assets other than those for which a valuation allowance has been recorded.

The components of income taxes attributable to income from operations were as follows:

	For the Years Ended December 31	
(Dollars in thousands)	**2024**	2023
Current tax expense (benefit)	$ **2,689**	$ 1,015
Deferred tax expense (benefit)	**(473)**	1,140
Income tax provision	$ **2,216**	$ 2,155

For the years ended December 31, 2024 and 2023, the income tax provisions are different from the tax expense which would be computed by applying the Federal statutory rate to pretax operating earnings. The Federal statutory rate was 21% for 2024 and 2023. A reconciliation between the tax provision at the statutory rate and the tax provision at the effective tax rate is as follows:

	For the Years Ended December 31			
(Dollars in thousands)	**2024**	**%**	2023	**%**
Tax provision at statutory rate	$ **2,796**	**21.0%**	$ 3,310	21.0%
Income on tax-exempt loans and securities	**(881)**	**-6.6%**	(949)	-6.0%
Investment in solar tax credit	**(29)**	**-0.2%**	(325)	-2.1%
Nondeductible interest expense relating to carrying tax-exempt obligations	**323**	**2.4%**	215	1.4%
Income from bank owned life insurance	**(107)**	**-0.8%**	(88)	-0.6%
Stock option compensation	**12**	**0.1%**	(1)	0.0%
Other, net	**102**	**0.8%**	(7)	0.0%
Income tax provision	$ **2,216**	**16.6%**	$ 2,155	13.7%

The Corporation recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense for all periods presented. No penalties or interest were recognized in 2024 or 2023. The Corporation had no uncertain tax positions at December 31, 2024. The Corporation is no longer subject to U.S. Federal and state examinations by tax authorities for the years before 2021.

Note 15. Accumulated Other Comprehensive Income/(Loss)

The components of accumulated other comprehensive loss included in shareholders' equity at December 31 are as follows:

	For the Years Ended December 31	
	2024	2023
Net unrealized losses on debt securities	$ **(43,149)**	$ (49,416)
Tax effect	**9,061**	10,377
Ending balance	$ **(34,088)**	$ (39,039)
Accumulated pension adjustment	$ **(1,797)**	$ (2,406)
Tax effect	**377**	505
Net of tax amount	$ **(1,420)**	$ (1,901)
Total accumulated other comprehensive loss	$ **(35,508)**	$ (40,940)

Note 16. Financial Derivatives

The Corporation is exposed to certain risks arising from both its business operations and economic conditions. The Corporation principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Corporation manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities.

Fair Value Hedges – The Corporation entered into certain interest rate swap contracts designated as fair value portfolio layer hedges of certain available-for-sale investment securities. The Corporation makes a fixed payment and receives a variable payment over the life of the contracts. The hedges were determined to be effective during all periods presented and are expected to be effective during the remaining term of the contracts. At December 31, 2024, the Corporation had posted cash collateral of $5.2 million to a counterparty, reported in interest-bearing deposits in other banks on the Consolidated Balance Sheet.

Derivatives Not Designated as Hedges – These derivatives result from participations in interest rate swaps provided by external lenders as part of loan participation arrangements, therefore, are not used to manage interest rate risk in the Corporation's assets or liabilities. Derivatives not designated as hedges are not speculative and result from a service the Corporation provides to certain lenders which participate in loans.

The table below presents the fair value of the Corporation's derivative financial instruments as well as their classification on the Balance Sheet as of December 31, 2024 and 2023:

Fair Value of Derivative Instruments

(Dollars in thousands)	Derivative Liabilities					
	As of December 31, 2024			As of December 31, 2023		
	Notional amount	Balance Sheet Location	Fair Value	Notional amount	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments						
Interest rate swaps	$ **111,087**	Other Assets	$ **2,275**	$ —	Other Assets	$ —
Total derivatives designated as hedging instruments			$ **2,275**			$ —
Derivatives not designated as hedging instruments						
Other Contracts	$ **6,064**	Other Liabilities	$ —	$ 6,268	Other Liabilities	$ 2
Total derivatives not designated as hedging instruments			$ —			$ 2

The table below presents the effect of the Corporation's derivative financial instruments that are designated as hedging instruments on the Income Statement as of December 31, 2024 and 2023:

Effect of Derivatives Designated as Hedging Instruments on the Statement of Financial Performance

Derivatives Designated as Hedging Instruments under Subtopic 815-20	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivatives	
(Dollars in thousands)		Year Ended December 31	
		2024	2023
Interest rate swaps	Investment income	$ **212**	$ -

The table below presents the effect of the Corporation's derivative financial instruments that are not designated as hedging instruments on the Income Statement as of December 31, 2024 and 2023:

Effect of Derivatives Not Designated as Hedging Instruments on the Statement of Financial Performance

Derivatives Not Designated as Hedging Instruments under Subtopic 815-20	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivatives	
(Dollars in thousands)		Year Ended December 31	
		2024	2023
Other Contracts	Other income	$ **1**	$ 1

The table below presents the carrying amount of the derivative financial instruments as of December 31, 2024 and 2023:

(Dollars in thousands)	Carrying amount of the hedged items Year Ended December 31		Cumulative amount of fair value hedging instruments Year Ended December 31	
	2024	2023	**2024**	2023
Investment securities, AFS (1)	**$ 112,261**	$ -	**$ (2,300)**	$ -

(1) The amounts represent the amortized cost basis of closed portfolios used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedge period. At December 31, 2024, the fair value of the closed portfolio used in these hedging relationships was $2.3 million and the notional amount was $111.1 million.

Note 17. Benefit Plans

The Bank has a 401(k) plan which includes an auto enrollment feature and covers all employees of the Bank who have completed four months of service. Employee contributions to the plan are matched at 100% up to 4% of each participant's deferrals plus 50% of the next 2% of deferrals from participants' eligible compensation. Under this plan, the maximum amount of employee contributions in any given year is defined by Internal Revenue Service regulations. In addition, a 100% discretionary profit-sharing contribution of up to 2% of each employee's eligible compensation is possible provided net income targets are achieved. The related expense for the 401(k) plan, and the discretionary profit-sharing plan was $1.3 million in 2024 and in 2023. This expense is recorded in the Salary and employee benefits line of the Consolidated Statements of Income.

The Bank has a noncontributory defined benefit pension plan covering employees hired prior to April 1, 2007 and the plan was closed to new participants on this date. Benefits are based on years of service and the employee's compensation using a career average formula. The Bank's funding policy is to contribute the annual amount required to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Contributions are intended to provide not only for the benefits attributed to service to date but also for those expected to be earned in the future. Employees who are eligible for pension benefits may elect to receive an annuity style payment or a lump-sum payout of their pension benefits. Pension service costs are recorded in Salary and benefits expense while all other components of net periodic pension costs are recorded in other expense. For the next fiscal year, the estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit costs is $78 thousand. The Bank uses December 31 as the measurement date for its pension plan.

The Bank's Pension Committee reviews and determines all the assumptions used to determine the benefit obligations and expense annually. Historical investment returns play a significant role in determining the expected long-term rate of return on Plan assets.

The following table sets forth the plan's funded status, based on the 2024 and 2023 actuarial valuations:

	For the Years Ended December 31	
(Dollars in thousands)	**2024**	2023
Change in projected benefit obligation		
Benefit obligation at beginning of measurement year	**$ 13,129**	$ 13,865
Service cost	**219**	216
Interest cost	**769**	806
Actuarial (gain) loss	**(14)**	(214)
Benefits paid	**(855)**	(1,544)
Benefit obligation at end of measurement year	**13,248**	13,129
Change in plan assets		
Fair value of plan assets at beginning of measurement year	**13,962**	13,779
Actual return on plan assets net of expenses	**1,414**	1,727
Benefits paid	**(855)**	(1,544)
Fair value of plan assets at end of measurement year	**14,521**	13,962
Funded status of projected benefit obligation	**$ 1,273**	$ 833

	For the Years Ended December 31	
	2024	2023
Assumptions used to determine benefit obligations:		
Discount rate	**6.32%**	5.96%
Rate of compensation increase	**5.00%**	6.00%
Expected long-term return on plan assets	**6.00%**	6.00%

(Dollars in thousands)		
Amounts recognized in accumulated other comprehensive	For the Years Ended December 31	
income (loss), net of tax	**2024**	2023
Net actuarial loss	**$ (1,797)**	$ (2,406)
Tax effect	**377**	505
Net amount recognized in accumulated other comprehensive loss	**$ (1,420)**	$ (1,901)

(Dollars in thousands)	For the Years Ended December 31	
Components of net periodic pension cost	**2024**	2023
Service cost	**$ 219**	$ 216
Interest cost	**769**	806
Expected return on plan assets	**(863)**	(923)
Recognized net actuarial loss	**43**	—
Net periodic pension cost	**168**	99
Total net periodic pension cost	**$ 168**	$ 99

	For the Years Ended December 31	
	2024	2023
Assumptions used to determine net periodic benefit cost:		
Discount rate	**5.96%**	6.17%
Rate of compensation increase	**6.00%**	6.00%
Expected long-term return on plan assets	**6.00%**	6.00%
Asset allocations:		
Cash and cash equivalents	**3%**	3%
Common stocks	**29%**	36%
Corporate bonds	**17%**	14%
Municipal bonds	**24%**	28%
Investment fund - debt	**6%**	2%
Investment fund - equity	**18%**	13%
Deposit in immediate participation guarantee contract	**3%**	4%
Total	**100%**	100%

The following methods and assumptions were used to estimate the fair values of the assets held by the plan. See Note 22 for additional information on the fair value hierarchy.

Cash and Cash Equivalents: The carrying value of this asset is considered to approximate its fair value (Level 1).

Equity Securities, Investment Funds (Debt and Equity): The fair value of assets in these categories are determined using quoted market prices from nationally recognized markets (Level 1).

Bonds (Corporate and Municipal): Fair values of these assets was primarily measured using information from a third-party pricing service. This service provides pricing information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data from market research publications. Fair values were estimated primarily by obtaining quoted prices for similar assets in active markets or through the use of pricing models (Level 2).

Immediate Participation Guarantee Contract: The carrying value of this asset is considered to approximate its fair value. (Level 1).

Cash Surrender Value of Life Insurance: The cash surrender value of this asset is considered to approximate its fair value. However, the inputs used to determine the cash surrender value are not readily observable in the market (Level 3).

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 31, 2024 and 2023. For more information on the levels within the fair value hierarchy, please refer to Note 22.

(Dollars in Thousands)	**December 31, 2024**			
Asset Description	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	**$ 473**	**$ 473**	**$ —**	**$ —**
Equity securities	**4,256**	**4,256**	—	—
Corporate bonds	**2,470**	—	**2,470**	—
Municipal bonds	**3,469**	—	**3,469**	—
Investment fund - debt	**856**	**856**	—	—
Investment fund - equity	**2,623**	**2,623**	—	—
Deposit in immediate participation guarantee contract	**361**	**361**	—	—
Cash surrender value of life insurance	**13**	—	—	**13**
Total assets	**$ 14,521**	**$ 8,569**	**$ 5,939**	**$ 13**

(Dollars in Thousands)	December 31, 2023			
Asset Description	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 457	$ 457	$ —	$ —
Equity securities	4,978	4,978	—	—
Corporate bonds	1,961	—	1,961	—
Municipal bonds	3,911	—	3,911	—
Investment fund - debt	274	274	—	—
Investment fund - equity	1,831	1,831	—	—
Deposit in immediate participation guarantee contract	537	537	—	—
Cash surrender value of life insurance	13	—	—	13
Total assets	$ 13,962	$ 8,077	$ 5,872	$ 13

The following table sets forth a summary of the changes in the fair value of the Plan's level 3 investments for the years ended December 31, 2024 and 2023:

	Cash Value of Life Insurance December 31	
(Dollars in thousands)	**2024**	2023
Balance at the beginning of the period	**$ 13**	$ 28
Unrealized gain (loss) relating to investments held at the reporting date	**—**	—
Purchases, sales, issuances and settlement, net	**—**	(15)
Balance at the end of the period	**$ 13**	$ 13

Contributions

The Bank does not expect to make any contributions in 2025.

Estimated future benefit payments at December 31, 2024 (*Dollars in Thousands*)

2025	$ 1,264
2026	1,625
2027	1,676
2028	1,146
2029	844
2030-2034	5,159

Note 18. Stock Based Compensation

In 2004, the Corporation adopted the Employee Stock Purchase Plan of 2004 (ESPP). Under the ESPP, options for 250,000 shares of stock can be issued to eligible employees. The number of shares that can be purchased by each participant is defined by the plan and the Board of Directors sets the option price. However, the option price cannot be less than 90% of the fair market value of a share of the Corporation's common stock on the date the option is granted. The Board of Directors also determines the expiration date of the options; however, no option may have a term that exceeds one year from the grant date. ESPP options are exercisable immediately upon grant. Any shares related to unexercised options are available for future grant. The Board of Directors may amend, suspend or terminate the ESPP at any time. The exercise price of the 2024 ESPP options was set at 95% of the stock's fair value at the time of the award.

In 2019, the Corporation approved the 2019 Omnibus Stock Incentive Plan (Stock Plan), replacing the Incentive Stock Option Plan of 2013 (ISOP). No new awards will be made under the 2013 plan; however, any awards made under the 2013 plan remain outstanding under the terms they were issued. Under the Stock Plan, 400,000 shares have been authorized to be issued, inclusive of the remaining shares available under the 2013 plan that were rolled into the Stock Plan and forfeited awards are available for future grants. The Stock Plan allows for various types of awards including incentive stock options, restricted stock and stock appreciation rights.

The ESPP options and the incentive stock options (ISO) awarded under the Stock Plan and outstanding at December 31, 2024 are all exercisable. The ESPP options expire on June 30, 2025 and the ISO options expire 10 years from the grant date. The following table summarizes the activity in the ESPP:

Employee Stock Purchase Plan

(Dollars in thousands except share and per share data)	ESPP Options	Weighted Average Price Per Share	Aggregate Intrinsic Value
Balance Outstanding at December 31, 2022	25,943	$ 28.73	$ -
Granted	34,894	26.35	
Exercised	(1,607)	27.21	
Expired	(27,306)	27.77	
Balance Outstanding at December 31, 2023	31,924	$ 26.35	$ 166
Granted	**37,700**	**26.87**	
Exercised	**(1,159)**	**26.61**	
Expired	**(33,188)**	**26.38**	
Balance Outstanding at December 31, 2024	**35,277**	**$ 26.87**	$ **107**

Shares available for future grants under the ESPP at December 31, 2024 167,509

The following tables summarize the activity in the Stock Plan:

Incentive Stock Options

(Dollars in thousands except share and per share data)	ISOP	Weighted Average Price Per Share	Aggregate Intrinsic Value
Balance Outstanding at December 31, 2022	70,454	$ 28.84	$ 511
Granted	—	—	
Exercised	—	—	
Forfeited	—	—	
Balance Outstanding at December 31, 2023	70,454	$ 28.84	$ 191
Granted	—	—	
Exercised	**(6,375)**	**22.05**	
Forfeited	—	—	
Balance Outstanding at December 31, 2024	**64,079**	**$ 29.51**	$ **25**

Restricted Shares

	Restricted Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2022	20,504	$ 32.40
Granted	15,734	31.64
Vested	(17,183)	31.56
Forfeited	(548)	32.48
Nonvested as of December 31, 2023	18,507	$ 32.53
Granted	**26,001**	**27.03**
Vested	**(16,652)**	**31.18**
Forfeited	—	—
Nonvested as of December 31, 2024	**27,856**	**$ 28.21**

Shares available for future grants under the Stock Plan at December 31, 2024 227,540

Restricted shares awarded under the Stock Plan fully vest in one year for awards to Directors and ratably over three years for awards to other eligible employees. Compensation expense is based on the grant date fair value and was $634 thousand in 2024 and $483 in 2023. The amount of unrecognized compensation expense for restricted shares was $405 thousand at December 31, 2024.

The following table provides information about the options outstanding at December 31, 2024:

Stock Option Plan	Options Outstanding and Exercisable	Exercise Price per share	Weighted Average Remaining Life (years)
Employee Stock Purchase Plan	35,277	$ 26.87	0.5
Incentive Stock Options	625	22.05	0.2
Incentive Stock Options	14,650	21.27	1.2
Incentive Stock Options	24,050	30.00	2.2
Incentive Stock Options	24,754	34.10	3.2
ISO Total/Average	64,079	$ 28.84	2.3

Note 19. Deferred Compensation Agreement

The Bank has a Director's Deferred Compensation Plan, whereby each director may voluntarily participate and elect each year to defer all or a portion of their Bank director's fees. Each participant directs the investment of their own account among various publicly available mutual funds designated by the Bank's Wealth Management department. Changes in the account balance beyond the amount deferred to the account are solely the result of the performance of the selected mutual fund. The Bank maintains an offsetting asset and liability for the deferred account balances and the annual expense is recorded as a component of directors' fees as if it were a direct payment to the director. The Bank will not incur any expense when the account goes into payout.

Note 20. Shareholders' Equity

The Board of Directors, from time to time, authorizes the repurchase of the Corporation's $1.00 par value common stock. The repurchased shares will be held as Treasury shares available for issuance in connection with future stock dividends and stock splits, employee benefit plans, executive compensation plans, the Dividend Reinvestment Plan (DRIP) and other appropriate corporate purposes. The term of the repurchase plans is normally one year. The Corporation held 283,610 and 339,741 treasury shares at cost at December 31, 2024 and 2023, respectively.

The following table provides information about the Corporation's stock repurchase activity under an approved plan:

			Shares Repurchased	
Plan Date	Authorized	Expiration	2024	2023
12/14/2023	150,000 shares	12/31/2024	24,520	—

The Corporation's DRIP allows for shareholders to purchase additional shares of the Corporation's common stock by reinvesting cash dividends paid on their shares or through optional cash payments. The Corporation has authorized one million (1,000,000) shares

of its currently authorized but not outstanding common stock to be issued under the plan or it may issue from Treasury shares. The DRIP added $1.7 million to capital during 2024. This total was comprised of $1.0 million from the reinvestment of quarterly dividends and $730 thousand of optional cash purchases. During 2024, 62,247 shares of common stock were purchased through the DRIP and 158,205 shares remain to be issued. In January 2025, an open market repurchase plan was approved to repurchase 150,000 shares over a one-year period.

Note 21. Commitments and Contingencies

In the normal course of business, the Bank is a party to financial instruments that are not reflected in the accompanying financial statements and are commonly referred to as off-balance-sheet instruments. These financial instruments are entered into primarily to meet the financing needs of the Bank's customers and include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk not recognized in the consolidated balance sheet.

The Corporation's exposure to credit loss in the event of nonperformance by other parties to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contract or notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments.

The Bank had the following outstanding commitments as of December 31:

(Dollars in thousands)

Financial instruments whose contract amounts represent credit risk	**2024**	2023
Commercial commitments to extend credit	**$ 328,806**	$ 325,982
Consumer commitments to extend credit (secured)	**135,776**	112,157
Consumer commitments to extend credit (unsecured)	**5,352**	5,964
	$ 469,934	$ 444,103
Standby letters of credit	**$ 28,815**	$ 19,851
ACL - Unfunded Commitments (1)	**$ 2,030**	$ 2,022

(1) Reported in Other Liabilities on the Consolidated Balance Sheets

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses with the exception of home equity lines and personal lines of credit and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, is based on Management's credit evaluation of the counterparty. Collateral for most commercial commitments varies but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties. Collateral for secured consumer commitments consists of liens on residential real estate.

Standby letters of credit are instruments issued by the Bank, which guarantee the beneficiary payment by the Bank in the event of default by the Bank's customer in the nonperformance of an obligation or service. Most standby letters of credit are extended for one year periods. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral supporting the majority of those commitments for which collateral is deemed necessary primarily in the form of certificates of deposit and liens on real estate. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees.

Most of the Bank's business activity is with customers located within its primary market and does not involve any significant concentrations of credit to any one entity or industry.

On January 1, 2023, the Corporation adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, referred to as the current expected credit loss (CECL) methodology. Upon adoption, $412 thousand was added to the allowance for credit losses (ACL) – unfunded commitments. For 2024, the provision for credit losses-unfunded commitments was $8 thousand compared to $135 thousand for 2023.

Legal Proceedings

The nature of the Corporation's business generates a certain amount of litigation.

We establish accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and the amount of the loss can be reasonably estimated. When we are able to do so, we also determine estimates of probable losses, whether in excess of any accrued liability or where there is no accrued liability.

These assessments are based on our analysis of currently available information and are subject to significant judgment and a variety of assumptions and uncertainties. As new information is obtained, we may change our assessments and, as a result, take or adjust the amounts of our accruals and change our estimates of possible losses or ranges of possible losses. Due to the inherent subjectivity of the assessments and the unpredictability of outcomes of legal proceedings, any amounts that may be accrued or included in estimates of probable losses or ranges of probable losses may not represent the actual loss to the Corporation from any legal proceeding. Our exposure and ultimate losses may be higher, possibly significantly higher, than amounts we may accrue or amounts we may estimate.

In management's opinion, we do not anticipate, at the present time, that the ultimate aggregate liability, if any, arising out of all litigation to which the Corporation is a party will have a material adverse effect on our financial position. We cannot now determine, however, whether or not any claim asserted against us will have a material adverse effect on our results of operations in any future reporting period, which will depend on, amount other things, the amount of loss resulting from the claim and the amount of income otherwise reported for the reporting period. Thus, at December 31, 2024, we are unable to provide an evaluation of the likelihood of an unfavorable outcome or an estimate of the amount or range of potential loss with respect to such other matters and, accordingly, have not yet established any specific accrual for such other matters.

No material proceedings are pending or are known to be threatened or contemplated against us by governmental authorities.

In management's opinion, there are no other proceedings pending to which the Corporation is a party or to which its property is subject which, if determined adversely to the Corporation, would be material.

Note 22. Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Corporation's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates maybe different than the amounts reported at each year-end.

FASB ASC Topic 820, "Financial Instruments", requires disclosure of the fair value of financial assets and liabilities, including those financial assets and liabilities that are not measured and reported at fair value on a recurring and nonrecurring basis. The Corporation does not report any nonfinancial assets at fair value. FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are as follows:

Level 1: Valuation is based on unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. There may be substantial differences in the assumptions used for securities within the same level. For example, prices for U.S. Agency securities have fewer assumptions and are closer to level 1 valuations than the private label mortgage-backed securities that require more assumptions and are closer to level 3 valuations.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Corporation's assumptions regarding what market participants would assume when pricing a financial instrument.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The level within the hierarchy does not represent risk.

The following information regarding the fair value of the Corporation's financial instruments should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation's disclosures and those of other companies may not be meaningful.

The following methods and assumptions were used to estimate the fair values of the Corporation's financial instruments measured at fair value on a recurring and nonrecurring basis at December 31, 2024 and 2023.

Equity Securities: Equity securities are valued using quoted market prices from nationally recognized markets (Level 1). Equity securities are measured at fair value on a recurring basis.

Investment securities: Fair values of investment securities available-for-sale were primarily measured using information from a third-party pricing service. This service provides pricing information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data from market research publications. Level 2 investment securities are primarily comprised of debt securities issued by states and municipalities, corporations, mortgage-backed securities issued by government agencies, and government-sponsored enterprises. Fair values were estimated primarily by obtaining quoted prices for similar assets in active markets or through the use of pricing models. Investment securities are measured at fair value on a recurring basis.

Collateral Dependent Loans: The fair value of collateral dependent loans with specific allocations of the allowance for credit losses is generally based on recent real estate appraisals conducted by an independent, licensed appraiser, less cost to sell. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach (Level 2). If the appraiser makes an adjustment to account for differences between the comparable sales and income data available for similar loans, or if management adjusts the appraised value, then the fair value is considered Level 3. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Collateral dependent loans are evaluated on a quarterly basis for additional impairment and adjusted in accordance with the allowance policy. No partial charge-offs on these loans were taken in 2024. Collateral dependent loans are measured at fair value on a nonrecurring basis.

Derivatives: The fair value of derivatives are based on valuation methods using observable market data as of the measurement data (Level 2). The fair value of derivatives are determined using quantitative models using multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates and other factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources including, brokers, market transactions and third-party pricing services. The fair value represents an estimate of the amount the Corporation would receive or pay to terminate the derivative contract.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at the lower of cost or the fair value less costs to sell when acquired. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach with data from comparable properties (Level 2). If the appraiser makes an adjustment to account for differences between the comparable sales and income data available for similar loans, or if management adjusts the appraised value, then the fair value is considered Level 3. In connection with the measurement and initial recognition of other real estate owned, losses are recognized through the allowance for loan losses. Subsequent charge-offs are recognized as an expense. Other real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Recurring Fair Value Measurements

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2024 and 2023 are as follows:

(Dollars in Thousands)	**Fair Value at December 31, 2024**			
Asset Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities, at fair value	**$ 166**	**$ —**	**$ —**	**$ 166**
Available for sale:				
U.S. Treasury	**31,797**	**—**	**—**	**31,797**
Municipal	**—**	**133,592**	**—**	**133,592**
Corporate	**—**	**24,224**	**—**	**24,224**
Agency mortgage & asset-backed	**—**	**169,821**	**—**	**169,821**
Non-Agency mortgage & asset-backed	**—**	**149,170**	**—**	**149,170**
Total available for sale securities	**$ 31,963**	**$ 476,807**	**$ —**	**$ 508,770**
Derivatives	**$ —**	**$ 2,275**	**$ —**	**$ 2,275**

(Dollars in Thousands)	Fair Value at December 31, 2023			
Asset Description	Level 1	Level 2	Level 3	Total
Equity securities, at fair value	$ 427	$ —	$ —	$ 427
Available for sale:				
U.S. Treasury	74,091	—	—	74,091
Municipal	—	138,618	—	138,618
Corporate	—	23,198	—	23,198
Agency mortgage & asset-backed	—	132,591	—	132,591
Non-Agency mortgage & asset-backed	—	104,005	—	104,005
Total available for sale securities	$ 74,518	$ 398,412	$ —	$ 472,930
Liabilities				
Derivatives	$ —	$ 2	$ —	$ 2

Nonrecurring Fair Value Measurements

Financial assets measured at fair value on a nonrecurring basis at December 31, 2024 are presented in the table below. There were no financial assets measured at fair value on a nonrecurring basis at December 31, 2023.

(Dollars in Thousands)	**Fair Value at December 31, 2024**			
Asset Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Collateral Dependent Loans (1)	$ —	$ —	$ 380	$ 380
Total assets	$ —	$ —	$ 380	$ 380

(1) Collateral dependent loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

The Corporation did not record any liabilities at fair value for which measurement of the fair value was made on a nonrecurring basis at December 31, 2024 and 2023. For financial assets and liabilities measured at fair value on a recurring basis, there were no transfers of financial assets or liabilities between Level 1 and Level 2 during the period ending December 31, 2024 and 2023.

The following table presents additional quantitative information about Level 3 fair value measurements for assets measured at fair value on a nonrecurring basis at December 31, 2024. There were no assets measured at fair value on a nonrecurring basis as of December 31, 2023.

(Dollars in Thousands) **Quantitative Information about Level 3 Fair Value Measurements**

December 31, 2024	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Collateral Dependent	$ 380	Appraisal	Appraisal Adjustment on Real estate assets	100% (100%)
			Cost to sell	10%

(1) Collateral Dependent Loans: Collateral dependent loans are reported at the fair value of the underlying collateral if re payment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

The carrying amounts and estimated fair value of financial instruments not carried at fair value are as follows:

	December 31, 2024				
(Dollars in thousands)	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets, carried at cost:					
Cash and cash equivalents	**$ 203,613**	**$ 203,613**	**$ 203,613**	**$ —**	**$ —**
Long-term interest-earnings deposits in other banks	**1,499**	**1,499**	**1,499**		
Loans held for sale	**2,470**	**2,470**	**—**	**2,470**	**—**
Net loans	**1,380,424**	**1,351,450**	**—**	**—**	**1,351,450**
Accrued interest receivable	**7,348**	**7,348**	**—**	**—**	**7,348**
Financial liabilities:					
Deposits	**$ 1,815,647**	**$ 1,814,479**	**$ —**	**$ 1,814,479**	**$ —**
FHLB Advances	**200,000**	**200,883**		**200,883**	
Subordinate notes	**19,699**	**18,032**	**—**	**18,032**	**—**
Accrued interest payable	**4,689**	**4,689**	**—**	**4,689**	**—**

	December 31, 2023				
(Dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets, carried at cost:					
Cash and cash equivalents	$ 23,140	$ 23,140	$ 23,140	$ —	$ —
Long-term interest-earnings deposits in other banks	6,229	6,229	6,229		
Loans held for sale	213	213	—	213	—
Net loans	1,240,933	1,207,403	—	—	1,207,403
Accrued interest receivable	7,506	7,506	—	—	7,506
Financial liabilities:					
Deposits	$ 1,537,978	$ 1,537,480	$ —	$ 1,537,480	$ —
Federal Reserve Bank Borrowings	90,000	89,783		89,783	
FHLB Advances	40,000	40,110		40,110	
Subordinate notes	19,661	18,303	—	18,303	—
Accrued interest payable	3,856	3,856	—	3,856	—

Note 23. Parent Company (Franklin Financial Services Corporation) Condensed Financial Information

Balance Sheets

(Dollars in thousands)	December 31 **2024**	2023
Assets:		
Cash and cash equivalents	**$ 9,137**	$ 10,070
Investment securities	**166**	427
Equity investment in subsidiaries	**153,410**	140,074
Other assets	**1,704**	1,228
Total assets	**$ 164,417**	151,799
Liabilities:		
Subordinate notes	**$ 19,699**	$ 19,661
Other liabilities	**2**	2
Total liabilities	**19,701**	19,663
Shareholders' equity	**144,716**	132,136
Total liabilities and shareholders' equity	**$ 164,417**	$ 151,799

Statements of Income

(Dollars in thousands)	Years Ended December 31 **2024**	2023
Income:		
Dividends from Bank subsidiary	**$ 5,956**	$ 5,607
Change in fair value of equity securities	**209**	16
Dividends	**7**	7
	6,172	5,630
Expenses:		
Interest expense	**1,050**	1,051
Operating expenses	**1,932**	1,887
Income before income taxes and equity in undistributed income of subsidiaries	**3,190**	2,692
Income tax benefit	**568**	894
Equity in undistributed income of subsidiaries	**7,341**	10,012
Net income	**11,099**	13,598
Other comprehensive income/(loss) of subsidiary	**5,432**	10,347
Comprehensive income (loss)	**$ 16,531**	$ 23,945

Statements of Cash Flows

(Dollars in thousands)	Years Ended December 31 **2024**	2023
Cash flows from operating activities		
Net income	**$ 11,099**	$ 13,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed (income) of subsidiary	**(7,341)**	(10,012)
Stock option compensation	**634**	483
Change in fair value of equity security	**(209)**	(16)
Increase in other assets/liabilities	**(531)**	(896)
Net cash provided by operating activities	**3,652**	3,157
Cash flows from financing activities		
Dividends paid	**(5,629)**	(5,595)
Cash received from option exercises	**122**	47
Common stock issued under dividend reinvestment plan	**1,749**	1,355
Treasury stock purchase	**(827)**	(2,394)
Net cash (used in) provided by financing activities	**(4,585)**	(6,587)
(Decrease) increase in cash and cash equivalents	**(933)**	(3,430)
Cash and cash equivalents as of January 1	**10,070**	13,500
Cash and cash equivalents as of December 31	**$ 9,137**	$ 10,070

Note 24. Revenue Recognition

All of the Corporation's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income as presented in our consolidated statements of income. Revenue generating activities that fall within the scope of ASC 606 are described as follows:

Wealth Management Fees - these represent fees from wealth management (assets under management), fees from the management and settlement of estates and commissions from the sale of investment and insurance products. Asset management fees are generally assessed based on a tiered fee schedule, based on the value of assets under management, and are recognized monthly when the service obligation is completed. Fees for estate management services are based on the estimated fair value of the estate. These fees are generally recognized monthly over an 18-month period that Management has determined to represent the average time to fulfill the performance obligations of the contract. Management has the discretion to adjust this time period as needed based upon the nature and complexity of an individual estate. Commissions from the sale of investment and insurance products are recognized upon the completion of the transaction.

The following table presents Wealth Management Fees for December 31, 2024 and 2023:

(Dollars in thousands) **Wealth Management Fees**	For the Twelve Months Ended December 31, **2024**	2023
Asset Management Fees	**$ 7,760**	$ 6,889
Estate Management Fees	**508**	295
Commissions	**270**	328
Total	**$ 8,538**	$ 7,512

Loan Service Charges – these represent fees on loans for services or charges that occur after the loan has been booked, for example, late payment fees. All of these fees are transactional in nature and are recognized upon completion of the transaction which represents the performance obligation.

Deposit Service Charges and Fees – these represent fees from deposit customers for transaction based, account maintenance, and overdraft services. Transaction based fees include, but are not limited to, stop payment fees and overdraft fees. These fees are recognized at the time of the transaction when the performance obligation has been fulfilled. Account maintenance fees and account

analysis fees are earned over the course of a month, representing the period of the performance obligation, and are recognized monthly.

Debit Card Income – this represents interchange fees from cardholder transactions conducted through the card payment network. Cardholders use the debit card to conduct point-of-sale transactions that produce interchange fees. The fees are transaction based and the fee is recognized with the processing of the transaction. These fees are reported net of cardholder rewards.

Other Service Charges and Fees – these are comprised primarily of merchant card fees, credit card fees, ATM surcharges and interchange fees and wire transfer fees. Merchant card fees represent fees the Bank earns from a third party for enrolling a customer in the processor's program. Credit card fees represent a fee earned by the Bank for a successful referral to a card-issuing company. ATM surcharges and interchange fees are the result of Bank customers conducting ATM transactions that generate fee income and are processed through multiple card networks. All of these fees are transaction based and are recognized at the time of the transaction.

Other Income – these items are transactional in nature and recognized upon completion of the transaction which represents the performance obligation. Certain items included in this category may be excluded from the scope of ASC 606.

Gains/Losses on the Sale of Other Real Estate – these are recognized when control of the property transfers to the buyer.

Contract Balances – A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into longer-term revenue contracts with customers, and therefore, does not experience significant contract balances.

Contract Acquisition Costs – The Corporation expenses all contract acquisition costs as costs are incurred.

Note 25. Segment Reporting

The Corporation's reportable segments are determined by the Chief Operating Officer of the Bank, who is the designated chief operating decision maker (CODM), based upon information provided about the Corporation's products and services offered primarily between community banking and wealth management segments. The segments are also distinguished by the level of information provided to the CODM, who uses such information to review the performance of various components of the business, which are then aggregated if operating performance, products/services, and customer are similar. The CODM evaluates the financial performance of the Corporation's business segments by evaluating revenue streams, significant expenses, and budget to actual results to assess the performance of the segments and to determine allocation of resources. This evaluation is also used to assess the performance of each segment to evaluate compensation of certain employees.

Segment pretax profit or loss is used to assess the performance of the community banking segment by monitoring net interest income, fee income and noninterest expense. In this segment, interest income on loans and securities, and banking service fees are the primary source of revenue. Interest expense, the provision for credit losses, and salaries and benefits are the primary expenses.

Segment pretax profit or loss is used to assess the performance of the wealth management segment by monitoring fee income and operating expense, and by assets under management. In this segment, fees from assets under management are the primary source of revenue, while salaries and benefits are the primary expense.

	Year Ended December 31, 2024			Year Ended December 31, 2023		
	Reportable Segments			Reportable Segments		
(Dollars in thousands)	Wealth	Community Banking	Consolidated Total	Wealth	Community Banking	Consolidated Total
Interest income - loans, including fees	$ —	$ 73,996	$ 73,996	$ —	$ 58,277	$ 58,277
Interest income - investments	—	18,211	18,218	—	16,071	16,078
Interest income - interest-earning deposits in other banks	—	9,237	9,237	—	2,407	2,407
Wealth fee income	8,538	—	8,538	7,512	—	7,512
Total segment income	$ 8,538	$ 101,444	$ 109,989	$ 7,512	$ 76,755	$ 84,274
Reconciliation of revenue						
Other revenue - not allocated to a segment			5,141			7,339
Total consolidated revenue			$ 115,130			$ 91,613
Less:						
Interest expense - deposits	$ —	$ 30,906	$ 30,906	$ —	$ 18,843	$ 18,843
Interest expense - other borrowings	—	11,981	13,031	—	3,231	4,282
Provision for credit losses	—	1,983	1,983	—	2,724	2,724
Salary and benefit expense	3,829	28,923	32,752	3,722	25,091	28,813
Segment profit	$ 4,709	$ 27,651	$ 36,458	$ 3,790	$ 26,866	$ 36,951
Other expenses - not allocated to a segment			23,143			21,198
Income before taxes			$ 13,315			$ 15,753
Other segment disclosures						
Net occupancy	$ 524	$ 4,059	$ 4,583	$ 400	$ 3,998	$ 4,398
Data processing	$ 198	$ 5,606	$ 5,804	$ 197	$ 4,595	$ 4,792
Total assets for reportable segments	$ 1,555	$ 2,194,365	$ 2,197,841	$ 1,422	$ 1,834,333	$ 1,836,039

Note 26. Tax Credit Investments

The Corporation has invested in various solar tax credit limited partnerships or LLCs. These partnerships develop, build and operate solar renewable energy projects. Over the course of these investments, the Corporation expects to receive federal tax credits, tax-related benefits and excess cash distributions, if available. At December 31, 2024, the balance of these investments was ($382) thousand. The Corporation has no unfunded commitments to these projects.

During the years ended December 31, 2024 and 2023, the Corporation recognized other income, net of amortization of $447 thousand and $0, respectively, reported in Other Noninterest Income on the consolidated statements of income. Additionally, the Corporation recognized $122 thousand in federal income tax credits for 2024 and $367 thousand for 2023. The tax benefits from these investments is generally recognized over six years.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Controls and Procedures

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's Management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2024, the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Management Report on Internal Control Over Financial Reporting

The Management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2024, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013)*. Based on this assessment, Management concluded that, as of December 31, 2024, the Corporation's internal control over financial reporting is effective based on those criteria.

There were no changes during the fourth quarter of 2024 in the Corporation's internal control over financial reporting which materially affected, or which are reasonably likely to affect, the Corporation's internal control over financial reporting.

Item 9B. Other Information

During the quarter ended December 31, 2024, none of our directors or executive officers adopted or terminated a Rule 10b5-1 trading arrangement or adopted or terminated a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

Item 9C. Disclosures Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item relating to the directors and executive officers of the Corporation is incorporated herein by reference to the information set forth under the heading "ELECTION OF DIRECTORS - Information about Nominees and Continuing Directors" and under the heading "ADDITIONAL INFORMATION – Key Employees" appearing in the Corporation's 2025 proxy statement.

The information required by this item relating to compliance with Section 16(a) of the Exchange Act is incorporated herein by reference to the information set forth under the heading "ADDITIONAL INFORMATION - Delinquent Section 16(a) Filings" appearing in the Corporation's 2025 proxy statement.

The information required by this item relating to the Corporation's code of ethics is incorporated herein by reference to the information set forth under the heading "CORPORATE GOVERNANCE POLICIES, PRACTICES AND PROCEDURES" appearing in the Corporation's 2025 proxy statement. The Corporation will file on Form 8-K any amendments to, or waivers from, the code of ethics applicable to any of its directors or executive officers.

There have been no material changes to the procedures by which shareholders may recommend nominees to the Corporation's Board of Directors.

The information required by this Item relating to the Audit Committee and Audit Committee Financial Expert of the Corporation is incorporated herein by reference to the information set forth under the heading "BOARD STRUCTURE AND COMMITTEES – Audit Committee."

Item 11. Executive Compensation

The information required by this item relating to executive and director compensation is incorporated herein by reference to the information set forth under the heading "EXECUTIVE COMPENSATION" and "Proposal 1 – Election of Directors – 2024 Director Compensation" appearing in the Corporation's 2025 proxy statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item relating to securities authorized for issuance under executive compensation plans is incorporated herein by reference to the information set forth under the heading "EXECUTIVE COMPENSATION – Compensation Tables and Additional Compensation Disclosure" appearing in the Corporation's 2025 proxy statement.

The information required by this item relating to security ownership of certain beneficial owners is incorporated herein by reference to the information set forth under the heading "GENERAL INFORMATION - Voting of Shares and Principal Holders Thereof" appearing in the Corporation's 2025 proxy statement.

The information required by this item relating to security ownership of management is incorporated herein by reference to the information set forth under the heading "ELECTION OF DIRECTORS – Common Stock Ownership of Directors, Nominees and Executive Officers" appearing in the Corporation's 2025 proxy statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item relating to director independence is incorporated herein by reference to the information set forth under the heading "ELECTION OF DIRECTORS - Director Independence" and under the heading "ADDITIONAL INFORMATION - Transactions with Related Persons" appearing in the Corporation's 2025 proxy statement.

Item 14. Principal Accountant Fees and Services

The information required by this item relating to principal accountant fees and services is incorporated herein by reference to the information set forth under the heading "RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS" appearing in the Corporation's 2025 proxy statement.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) The following Consolidated Financial Statements of the Corporation:

Report of Independent Registered Public Accounting Firm (PCAOB ID 173)
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income
Consolidated Statements of Changes in Shareholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements.

(2) All financial statement schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and have therefore been omitted.

(3) The following exhibits are part of this report:

Item	Description
3.1	Amended and Restated Articles of Incorporation of the Corporation (Filed as Exhibit 3.1 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 and incorporated herein by reference.)
3.2	Bylaws of the Corporation (Filed Exhibit 99.1 of Current Report on Form 8-K as filed with the Commission on September 2, 2022 and incorporated herein by reference.)
4.	Instruments defining the rights of securities holders, including indentures, are contained in the Articles of Incorporation (Exhibit 3.1) and Bylaws (Exhibit 3.2)
10.1	Deferred Compensation Agreements with Bank Directors* (Filed as Exhibit 10.1 to Annual Report on Form 10-K for the year ended December 31, 2014 and incorporated herein by reference.)
10.2	Director's Deferred Compensation Plan* (Filed as Exhibit 10.2 to Annual Report on Form 10-K for the year ended December 31, 2014 and incorporated herein by reference.)
10.3	Senior Management Annual Incentive Plan*- filed herewith
10.4	Senior Management and Directors Incentive Stock Plan* - filed herewith
10.5	Incentive Stock Option Plan of 2013 (Filed as Exhibit 10.1 to Registration Statement No. 333-193655 on Form S-8 filed January 30, 2014 and incorporated herein by reference)*
10.6	2019 Omnibus Stock Incentive Plan (Filed as Appendix A to the Definitive Proxy statement on Schedule 14A as filed with the Commission on March 18, 2019 and incorporated herein by reference.)*
10.7	Employment Agreement by and among Franklin Financial Services Corporation ("Corporation"), Farmers and Merchants Trust Company of Chambersburg ("Bank"), and Timothy G. Henry, incorporated by reference to Exhibit 99.1 to the Registrant's Form 8-K filed March 4, 2021*
10.9	Employment Agreement by and among Franklin Financial Services Corporation ("Corporation"), Farmers and Merchants Trust Company of Chambersburg ("Bank"), and Mark R. Hollar, incorporated by reference to Exhibit 99.3 to the Registrant's Form 8-K filed March 4, 2021*
10.11	Employment Agreement by and among Franklin Financial Services Corporation ("Corporation"), Farmers and Merchants Trust Company of Chambersburg ("Bank") and Charles (Chad) B. Carroll, incorporated by reference to Exhibit 99.2 to the Registrant's Form 8-K filed January 5, 2023*
10.12	Employment Agreement by and among Franklin Financial Services Corporation ("Corporation"), Farmers and Merchants Trust Company of Chambersburg ("Bank") and Craig W. Best, incorporated by reference to Exhibit 99.1 to the Registrant's Form 8-K filed January 14, 2025*
14	Code of Ethics posted on the Corporation's website
19	Insider Trading Policy – filed herewith
21	Subsidiaries of Corporation - filed herewith
23.1	Consent of Crowe LLP – filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification (Chief Executive Officer) – filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification (Chief Financial Officer) – filed herewith
32.1	Section 1350 Certification (Chief Executive Officer) – filed herewith
32.2	Section 1350 Certification (Chief Financial Officer) – filed herewith
97	Policy Relating to Recovery of Erroneously Awarded Compensation (Clawback) (Filed as Exhibit 97 to Annual Report on Form 10-K for the year ended December 31, 2023 and incorporated herein by reference)
101	Interactive Data File (XBRL)

* *Compensatory plan or arrangement.*

(b) The exhibits required to be filed as part of this report are submitted as a separate section of this report.

(c) Financial Statement Schedules: None.

Item 16. Form 10-K Summary

None.

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FRANKLIN FINANCIAL SERVICES CORPORATION
By: /s/ Timothy G. Henry
Timothy G. Henry
Chief Executive Officer

Dated: March 14, 2025

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ G. Warren Elliott G. Warren Elliott	Chairman of the Board and Director	March 14, 2025
/s/ Timothy G. Henry Timothy G. Henry	Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2025
/s/ Craig W. Best Craig W. Best	President and Director	March 14, 2025
/s/ Mark R. Hollar Mark R. Hollar	Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2025
/s/ Martin R. Brown Martin R. Brown	Director	March 14, 2025
/s/ Kevin W. Craig Kevin W. Craig	Director	March 14, 2025
/s/ Gregory A. Duffey Gregory A. Duffey	Director	March 14, 2025
/s/ Daniel J. Fisher Daniel J. Fisher	Director	March 14, 2025
/s/ Allan E. Jennings, Jr. Allan E. Jennings, Jr.	Director	March 14, 2025
/s/ Stanley J. Kerlin Stanley J. Kerlin	Director	March 14, 2025
/s/ Donald H. Mowery Donald H. Mowery	Director	March 14, 2025
/s/ Kimberly M. Rzomp Kimberly M. Rzomp	Director	March 14, 2025
/s/ Gregory I. Snook Gregory I. Snook	Director	March 14, 2025