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, 2025

☐ 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 4,038,884 shares of the Registrant's common stock held by nonaffiliates of the Registrant as of June 30, 2025 based on the price of such shares was $139,866,553.

There were 4,482,893 outstanding shares of the Registrant's common stock as of February 28, 2026.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive annual proxy statement to be filed, pursuant to Reg. 14A within 120 days after December 31, 2025, are incorporated into Part III.

FRANKLIN FINANCIAL SERVICES CORPORATION
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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 2025 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. The Bank engages in general commercial and retail banking 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, making loans and providing safe deposit facilities. It also provides investment and trust services through its Wealth Management segment. 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, 2025 FDIC Summary of Deposits Report:

(Dollars in thousands)

	F&M Trust			
County, State	# of Locations	Deposits	Market Deposits	Market Share
Franklin, PA	12	$ 1,270,316	$ 3,719,925	34.15%
Cumberland, PA	6	443,912	11,642,442	3.81%
Dauphin, PA	1	40,700	7,647,085	0.53%
Fulton, PA	2	89,597	188,621	47.50%
Huntingdon, PA	1	32,696	757,710	4.32%
Washington, MD	1	25,581	3,275,973	0.78%
	23	$ 1,902,802	$ 27,231,756	6.99%

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) greater than, and more quickly than, 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, 2025.

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 2025, we achieved an outstanding 93% response rate, marking the eighth consecutive year of best-in-class participation. Our overall engagement score reached 85%, 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 51% of our workforce completing health risk assessments and 71% completing biometric screenings in 2025.

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 2025, our total voluntary turnover rate was 7.03%. Additionally, 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 2025, F&M Trust donated over $785 thousand to 324 organizations in our communities and funded 341 scholarships for $318 thousand to kindergarten through 12th grade, Pre-kindergarten schools and organizations through the Pennsylvania Educational Improvement Tax Credit program. In addition, employees of the Bank provided 2,474 volunteer hours to 105 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, 2025 was 5.27%. Compliance with the capital conservation buffer is required in order to avoid limitations on certain capital distributions, especially dividends. As of December 31, 2025, 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 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, 2025, 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, 2025, the Bank's non-owner occupied CRE loans were 350% of total regulatory capital compared to 343% on December 31, 2024.

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, 2025, the Bank was considered well capitalized and its assessment rate was approximately 9.2 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, 2025, approximately 85% ($1.326 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. The Bank's CRE concentration ratio was 349.9% of risk-based capital at December 31, 2025. 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 effect 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 78% ($1.224 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 $998.4 million at December 31, 2025 and account for 82% of the total commercial loan portfolio or 64% 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, 2025, the Bank's in-house policy lending limit was $32.7 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 (including artificial intelligence), 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.

Further, we may face unknown or contingent liabilities arising from cybersecurity incidents or data breaches that previously occurred at companies we acquire. Such incidents may not have been discovered, disclosed, or if previously discovered fully-remediated before closing, and the acquired company's representations, warranties, and indemnities may be limited in scope, duration, or recoverability. As a result, we could incur costs or liabilities after an acquisition relating to regulatory investigations, litigation, remediation efforts, reputational harm, or customer and partner claims, which could adversely affect its business, financial condition, and results of operations.

In general, cyber incidents can result from deliberate attacks or unintentional events. The Corporation has observed an increased level of attention in the industry focused on cyber-attacks that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption.

While the Corporation maintains insurance coverage that may, subject to policy terms and conditions including significant self-insured deductibles, cover or ameliorate certain financial aspects of cyber risks, such insurance coverage may be insufficient to cover all losses.

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.

The Corporation may use artificial intelligence (AI) in its business, and challenges with properly managing its use could result in disruption of its internal operations, reputational harm, competitive harm, legal liability and adversely affect its results of operations and stock price.

The Corporation may incorporate AI solutions into platforms that deliver products and services to its customers, including solutions developed by third parties whose AI is integrated into its products and services. The Corporation's business could be harmed and it may be exposed to legal liability and reputational risk if the AI it uses is or is alleged to be deficient, inaccurate, or biased because the AI algorithms are flawed, insufficient, of poor quality, or reflect unwanted forms of bias, particularly if third party AI integrated with its platforms produces false or "hallucinatory" inferences.

Data practices by the Corporation or others that result in controversy could impair the acceptance of AI, which could undermine the decisions, predictions, or analysis that AI applications produce. The Corporation's customers and potential customers may express adverse opinions concerning its use of AI and machine learning that could result in brand or reputational harm, competitive harm, or legal liability. If the Corporation develops Generative AI, its content creation may require additional investment as testing for bias, accuracy and unintended, harmful impact is often complex and may be costly. As a result, the Corporation may need to increase the cost of its products and services which may make it less competitive, particularly if its competitors incorporate AI more quickly or successfully.

Governmental bodies have implemented laws and are considering further regulation of AI (including machine learning), which could negatively impact the Corporation's ability to use and develop AI. The Corporation is unable to predict how application of existing laws, including federal and state privacy and data protection laws, and adoption of new laws and regulations applicable to AI will affect it but it is likely that compliance with such laws and regulations will increase its compliance costs and such increase may be substantial and adversely affect its results of operations. Furthermore, its use of Generative AI and other forms of AI may expose us to risks relating to intellectual property ownership and licensing rights, including copyright of Generative AI and other AI output as these issues have not been fully interpreted by federal courts or been fully addressed by federal or state legislation or regulations.

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 (48%) 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.

As of December 31, 2025, 42% ($771.2 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.

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, public health crises, 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 (international or domestic), public health crises, geopolitical events, 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.

Changes to trade policies and tariffs can have an adverse impact on our business and our customers.
Changes in trade policies, including the imposition of tariffs or the escalation of a trade war, could negatively impact the economic conditions in the markets we serve. Our customers – particularly local businesses engaged in agriculture, manufacturing, and retail – may face higher costs for imported goods and materials, reduced export demand, and supply chain disruptions due to increased tariffs. These challenges could lead to lower revenues, reduced profitability, and potential layoffs, all of which may impair our customers' ability to meet their financial obligations. Furthermore, prolonged trade tensions and economic uncertainty could lead to market volatility, declining asset values, and weakened consumer confidence. If our customers experience financial stress, we could see an increase in loan delinquencies and credit losses, negatively affecting our asset quality and overall financial performance. Additionally, any decline in local economic activity could reduce loan demand, deposit growth, and fee income, which are critical to our long-term success. While we actively monitor economic and policy developments, we cannot predict the outcome of trade negotiations or the full impact of tariffs and trade restrictions on our business, customers, and the broader economy. Any adverse effects from tariffs or a trade war could materially and negatively impact our financial condition, results of operations, and future growth prospects.

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 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	16	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, 2025, 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, 2025.

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.

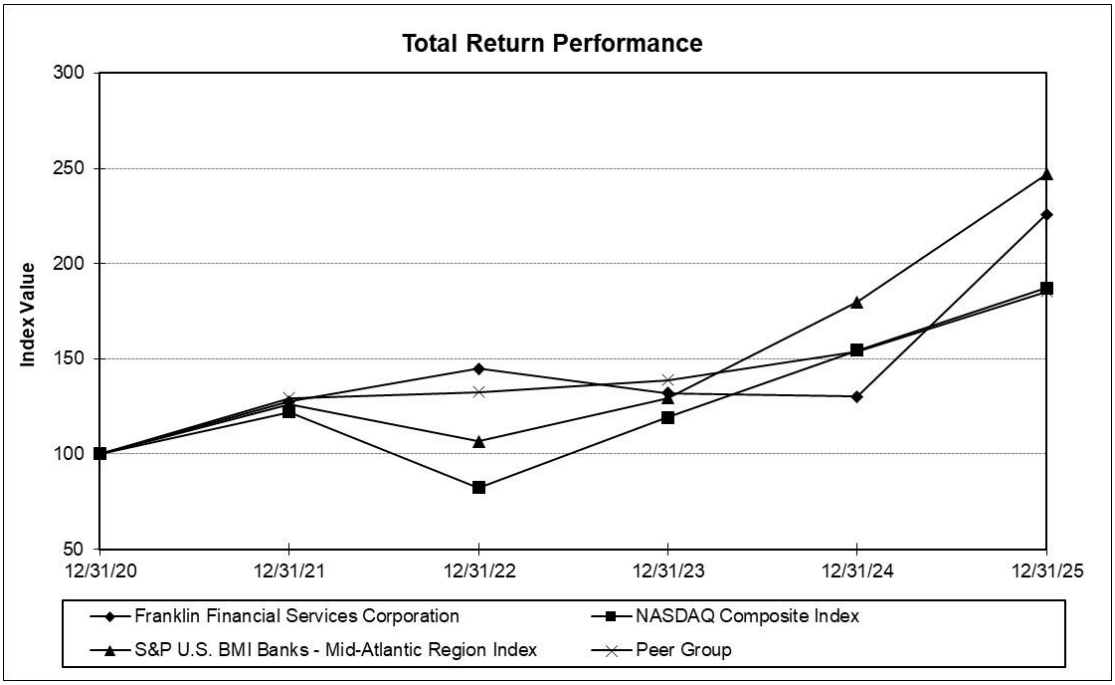
The following table shows stock repurchase activity under approved plans:

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 2025	—	$ —	$ —	137,200
November 2025	6,500	$ 52.22	$ 339,840	130,700
December 2025	—	$ —	$ —	130,700
	6,500		$ 339,840	

The shares reported above were part of a repurchase plan that expired on December 31, 2025. In December 2025, an open market repurchase plan was approved to repurchase 150,000 shares through December 31, 2026.

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, 2025; for the five-year period ended December 31, 2025, in each case assuming an initial investment of $100 on December 31, 2020 and the reinvestment of all dividends. Information is provided by S&P Global Market Intelligence.



	Period Ending					
Index	**12/31/20**	**12/31/21**	**12/31/22**	**12/31/23**	**12/31/24**	**12/31/25**
Franklin Financial Services Corporation	$ 100.00	$ 127.52	$ 144.73	$ 132.00	$ 130.17	$ 225.82
NASDAQ Composite Index	$ 100.00	$ 122.18	$ 82.43	$ 119.22	$ 154.48	$ 187.14
S&P U.S. BMI Banks - Mid-Atlantic Region Index	$ 100.00	$ 126.30	$ 106.67	$ 129.34	$ 179.73	$ 247.07
Peer Group*	$ 100.00	$ 129.35	$ 132.58	$ 138.86	$ 154.09	$ 185.24

*Peer Group consists of Mid Atlantic Banks with Assets between $1.5B-$2.5B as of 9/30/2025

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 28, 2026 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 2026 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)	**2025**	2024	2023	2022	2021
Balance Sheet Highlights					
Total assets	**$ 2,239,018**	$ 2,197,841	$ 1,836,039	$ 1,699,579	$ 1,773,806
Debt securities available for sale, at fair value	**454,586**	508,604	472,503	487,247	530,292
Loans, net	**1,540,583**	1,380,424	1,240,933	1,036,866	983,746
Deposits	**1,835,772**	1,815,647	1,537,978	1,551,448	1,584,359
Other borrowings	**200,000**	200,000	130,000	—	—
Shareholders' equity	**175,242**	144,716	132,136	114,197	157,065
Summary of Operations					
Interest income	**$ 114,371**	$ 101,451	$ 76,762	$ 56,449	$ 47,573
Interest expense	**44,725**	43,937	23,125	4,863	2,902
Net interest income	**69,646**	57,514	53,637	51,586	44,671
Provision for credit losses - loans	**3,030**	1,975	2,589	650	(2,100)
Provision for credit losses - unfunded commitments	**(131)**	8	135	—	—
Total provision for credit losses	**2,899**	1,983	2,724	650	(2,100)
Net interest income after provision for credit losses	**66,747**	55,531	50,913	50,936	46,771
Noninterest income	**19,176**	13,679	14,851	15,250	19,488
Noninterest expense	**59,656**	55,895	50,011	48,691	43,245
Income before income taxes	**26,267**	13,315	15,753	17,495	23,014
Income tax expense	**5,041**	2,216	2,155	2,557	3,398
Net income	**$ 21,226**	$ 11,099	$ 13,598	$ 14,938	$ 19,616
Performance Measurements					
Return on average assets	**0.94%**	0.54%	0.78%	0.83%	1.17%
Return on average equity	**13.55%**	8.05%	11.39%	11.64%	13.20%
Return on average tangible equity (1)	**14.38%**	8.62%	12.32%	12.52%	14.05%
Efficiency ratio (1)	**66.48%**	73.36%	70.75%	71.21%	66.12%
Net interest margin, fully tax equivalent	**3.25%**	2.95%	3.31%	3.11%	2.88%
Shareholders' Value (per common share)					
Diluted earnings per share	**$ 4.74**	$ 2.51	$ 3.10	$ 3.36	$ 4.42
Basic earnings per share	**4.76**	2.52	3.11	3.38	4.44
Regular cash dividends paid	**1.31**	1.28	1.28	1.28	1.25
Book value	**39.11**	32.69	30.23	26.01	35.36
Tangible book value (1)	**37.10**	30.65	28.17	23.96	33.34
Market value*	**50.20**	29.90	31.55	36.10	33.10
Market value/book value ratio	**128.36%**	91.47%	104.37%	138.79%	93.61%
Market value/tangible book value ratio	**135.33%**	97.54%	112.01%	150.67%	99.29%
Price/earnings multiple year-to-date	**10.59**	11.91	10.18	10.74	7.49
Dividend yield**	**2.63%**	4.28%	4.06%	3.55%	3.87%
Dividend payout ratio	**27.54%**	50.72%	41.15%	37.88%	28.16%
Safety and Soundness					
Average equity/average assets	**6.92%**	6.65%	6.82%	7.17%	8.89%
Risk-based capital ratio (Total)	**13.27%**	13.85%	14.45%	17.21%	18.41%
Leverage ratio (Tier 1)	**8.17%**	7.92%	9.01%	8.95%	8.52%
Common equity ratio (Tier 1)	**11.45%**	11.31%	11.82%	14.22%	15.20%
Nonperforming loans/gross loans	**0.55%**	0.02%	0.01%	0.01%	0.74%
Nonperforming assets/total assets	**0.38%**	0.01%	0.01%	0.01%	0.42%
Allowance for credit loss/loans	**1.32%**	1.26%	1.28%	1.35%	1.51%
Net loan (charge-offs) recoveries/average loans	**0.00%**	-0.03%	-0.02%	-0.15%	0.04%
Assets under Management					
Wealth Management Services (fair value)	**$ 1,273,421**	$ 1,169,282	$ 1,094,747	$ 904,317	$ 946,964
Held at third-party brokers (fair value)	**147,880**	139,872	135,423	116,398	118,046
	$ 1,421,301	$ 1,309,154	$ 1,230,170	$ 1,020,715	$ 1,065,010

(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

** 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				
	2025	2024	2023	2022	2021
Return on Average Tangible Equity (non-GAAP)					
Net income	**$ 21,226**	$ 11,099	$ 13,598	$ 14,938	$ 19,616
Average shareholders' equity	**156,638**	137,840	119,408	128,283	148,637
Less average intangible assets	**(9,016)**	(9,016)	(9,016)	(9,016)	(9,016)
Average shareholders' equity (non-GAAP)	**$ 147,622**	$ 128,824	$ 110,392	$ 119,267	$ 139,621
Return on average tangible equity (non-GAAP)	**14.38%**	8.62%	12.32%	12.52%	14.05%
Tangible Book Value (per share) (non-GAAP)					
Shareholders' equity	**$ 175,242**	$ 144,716	$ 132,136	$ 114,197	$ 157,065
Less intangible assets	**(9,016)**	(9,016)	(9,016)	(9,016)	(9,016)
Shareholders' equity (non-GAAP)	**$ 166,226**	$ 135,700	$ 123,120	$ 105,181	$ 148,049
Shares outstanding (in thousands)	**4,481**	4,427	4,371	4,390	4,441
Tangible book value (non-GAAP)	**$ 37.10**	$ 30.65	$ 28.17	$ 23.96	$ 33.34
Efficiency Ratio (non-GAAP)					
Noninterest expense	**$ 59,656**	$ 55,895	$ 50,011	$ 48,691	$ 43,245
Net interest income	**69,646**	57,514	53,637	51,586	44,671
Plus tax equivalent adjustment to net interest income	**904**	938	1,094	1,381	1,466
Plus noninterest income, net of securities transactions	**19,183**	17,737	15,954	15,410	19,271
Total revenue	**$ 89,733**	$ 76,189	$ 70,685	$ 68,377	$ 65,408
Efficiency ratio (non-GAAP)	**66.48%**	73.36%	70.75%	71.21%	66.12%

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 $21.2 million ($4.74 per diluted share) for 2025 compared with $11.1 million ($2.51 per diluted share) for the same period in 2024.

- Net income for 2025 was $21.2 million ($4.74 per diluted share) compared to $11.1 million ($2.51 per diluted share) for 2024, an increase of 91.2%. Year-to-date income for 2024 was negatively affected by a $3.4 million after tax loss on the sale of investment securities sold as part of portfolio restructuring.
- The provision for credit losses on loans was $3.0 million for the year compared to $2.0 million for 2024. The increase was driven primarily by a specific reserve of $894 thousand established in the third quarter of 2025 for a $7.1 million commercial loan. The provision for credit losses on unfunded commitments was a reversal of $131 thousand for 2025 and an expense of $8 thousand in 2024.
- Noninterest income for 2025 was $19.2 million, an increase of 40.2% from $13.7 million in 2024. Noninterest income for 2024 includes a $4.3 million pre-tax securities loss. Excluding the loss from the sale of investment securities in 2024, noninterest income in 2025 would have increased $1.2 million (6.9%) over 2024. Year-over-year, wealth management fees increased $631 thousand, gains on the sale of mortgages increased $107 thousand, and a sales tax refund of $326 thousand was received in 2025.
- Noninterest expense was $59.7 million for 2025 compared to $55.9 million in 2024, an increase of $3.8 million or 6.7%. The largest factor contributing to the year-over-year change was an increase of $2.6 million in salaries and benefits (primarily salaries and health insurance). Legal and professional fees, advertising, data processing and FDIC insurance premiums were also higher in 2025 compared to 2024.
- The effective income tax rate was 19.2% for 2025 and 16.6% in 2024.

Total assets at December 31, 2025 were $2.239 billion compared to $2.198 billion at December 31, 2024, an increase of 1.9%. Significant balance sheet changes since December 31, 2024, include:

- Debt securities available for sale decreased $54.0 million (10.6%) in 2025 from 2024 due primarily to paydowns. On December 31, 2025, the net unrealized loss in the portfolio was $26.8 million compared to a net unrealized loss of $45.4 million at year-end 2024.
- Net loans increased $160.2 million (11.6%) at year-end 2025 over the year-end 2024 balance, primarily from increases in commercial real estate loans of $100.2 million, and 1- 4 family residential real estate of $45.6 million. On December 31, 2025, commercial real estate loans totaled $903.6 million (57.9% of total gross loans), with the largest collateral segments being: apartment buildings ($181.7 million), hotels and motels ($102.2 million), land development ($97.0 million), office buildings ($92.8 million) and shopping centers ($87.9 million) which are located primarily in south-central Pennsylvania.

- Total deposits increased $20.1 million (1.1%) to $1.836 billion from year-end 2024. The year over year growth was reduced primarily due to the Bank paying off $65.0 million of brokered time deposits in the fourth quarter of 2025. Noninterest-bearing deposits (16.9% of total deposits) grew 6.9% from year-end 2024, and interest-bearing checking and savings accounts increased 7.6% over the same period. Non-brokered time deposits declined 11.6% year-over year. The Bank's cost of deposits for 2025 averaged 1.85% compared to 1.89% for the same period in 2024. On December 31, 2025, the Bank estimated that 87% of its deposits were FDIC insured or collateralized.
- On December 31, 2025, the Bank had borrowings of $200.0 million from the Federal Home Loan Bank of Pittsburgh (FHLB). The Bank has additional funding capacity with the Federal Reserve, FHLB and correspondent banks.
- Shareholders' equity increased $30.5 million (21.1%) from December 31, 2024. Retained earnings increased $15.4 million, net of dividends of $5.8 million paid to shareholders during 2025. The accumulated other comprehensive loss (AOCI) decreased from $35.5 million at year-end 2024 to $21.6 million from a decrease in the unrealized loss in the investment portfolio. On December 31, 2025, the book value of the Corporation's common stock was $39.11 per share and tangible book value [(1)] was $37.10 per share. In January 2025, an open market repurchase plan was approved to repurchase 150,000 shares of common stock over a one-year period and 19,300 shares of common stock were repurchased in 2025 under the approved plan to fund the quarterly dividend reinvestment plan and Employee Stock Purchase Plan. In December 2025, a new repurchase plan to repurchase 150,000 shares through December 31, 2026, was approved. The Bank is considered to be "well-capitalized" under regulatory guidelines as of December 31, 2025.
- Average 2025 earning assets were $2.172 billion compared to $1.983 billion in 2024, an increase of $189.8 million (9.6%). The increase occurred primarily in the commercial real estate portfolio ($118.2 million) and the residential 1-4 family real estate portfolio ($51.9 million). The yield on earning assets increased from 5.16% in 2024 to 5.31% in 2025. For the fourth quarter of 2025, the yield on earning assets was 5.29%. Total deposits averaged $1.872 billion, an increase of 14.3% over the 2024 average of $1.638 billion. The cost of total deposits for 2025 was 1.85% compared to 1.89% for 2024.
- Nonaccrual loans totaled $8.5 million on December 31, 2025, and have increased from $266 thousand on December 31, 2024, but have decreased from $10.7 million on September 30, 2025. Nonaccrual loans were 0.55% of total gross loans on December 31, 2025, compared to 0.02% on December 31, 2024. The nonaccrual loans are comprised primarily of commercial real estate (CRE) loans totaling $8.1 million among four different loans to unrelated borrowers. The largest nonaccrual CRE loan is for a $7.1 million construction loan on a mixed-use commercial project. The construction loan is current on payments as of December 31, 2025, however, a specific reserve of $892 thousand has been established for this loan. The allowance for credit loss to loans ratio was 1.32% on December 31, 2025, up from 1.26% on December 31, 2024, primarily due to the addition of the specific reserve, previously mentioned. The allowance for credit losses (ACL) for unfunded commitments was $1.9 million and $2.0 million on December 31, 2025, and 2024, respectively.

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 5.31% for 2025 from 5.16% for 2024. The benefit provided by tax-exempt income was $904 thousand in 2025.

Table 1. Net Interest Income

			Change	
(Dollars in thousands)	**2025**	2024	**$**	**%**
Interest income	$ **114,371**	$ 101,451	$ **12,920**	**12.7**
Interest expense	**44,725**	43,937	**788**	**1.8**
Net interest income	**69,646**	57,514	**12,132**	**21.1**
Tax equivalent adjustment	**904**	938	**(34)**	**(3.6)**
Tax equivalent net interest income	$ **70,550**	$ 58,452	$ **12,098**	**20.7**

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

	2025 Compared to 2024			2024 Compared to 2023		
Increase (Decrease) due to:	**Increase (Decrease) due to:**			Increase (Decrease) due to:		
(Dollars in thousands)	**Volume**	**Rate**	**Net**	Volume	Rate	Net
Interest earned on:						
Interest-earning deposits in other banks	**$ 3**	**$ (1,599)**	**$ (1,596)**	$ 6,567	$ 263	$ 6,830
Investment securities:						
Taxable securities	**403**	**805**	**1,208**	652	993	1,645
Tax-exempt securities	**(36)**	**24**	**(12)**	(96)	(105)	(201)
Restricted stock	**(55)**	**151**	**96**	562	74	636
Total investment securities	**312**	**980**	**1,292**	1,118	962	2,080
Gross loans:						
Residential real estate 1-4 family:						
First liens	**2,245**	**1,245**	**3,490**	2,406	1,124	3,530
Junior liens and lines of credit	**647**	**(105)**	**542**	224	361	585
Residential real estate - construction	**1,198**	**(63)**	**1,135**	470	181	651
Commercial real estate	**6,976**	**1,373**	**8,349**	6,746	3,025	9,771
Commercial	**(399)**	**(40)**	**(439)**	(75)	1,047	972
Consumer	**107**	**6**	**113**	91	23	114
Total gross loans	**10,774**	**2,416**	**13,190**	9,862	5,761	15,623
Total net change in interest income	**11,089**	**1,797**	**12,886**	17,547	6,986	24,533
Interest expense on:						
Deposits:						
Interest checking	**(17)**	**(99)**	**(116)**	(208)	762	554
Money management	**3,615**	**(2,930)**	**685**	1,525	3,456	4,981
Savings	**(10)**	**(72)**	**(82)**	(26)	16	(10)
Time	**1,710**	**(644)**	**1,066**	3,571	1,629	5,200
Time - brokered	**2,412**	**(177)**	**2,235**	1,340	(2)	1,338
Total interest-bearing deposits	**7,710**	**(3,922)**	**3,788**	6,202	5,861	12,063
Subordinate notes	**(129)**	**360**	**231**	2	(3)	(1)
Federal Reserve Bank borrowings	**(981)**	**(981)**	**(1,962)**	(530)	118	(412)
Federal Home Loan Bank borrowings	**(873)**	**(396)**	**(1,269)**	9,390	(228)	9,162
Total net change in interest expense	**5,727**	**(4,939)**	**788**	15,064	5,748	20,812
Change in tax equivalent net interest income	**$ 5,362**	**$ 6,736**	**$ 12,098**	$ 2,483	$ 1,238	$ 3,721

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

	2025			2024		
(Dollars in thousands)	**Average balance**	**Income or expense**	**Average yield/rate**	Average balance	Income or expense	Average yield/rate
Interest-earning assets:						
Interest-earning deposits in other banks	**$ 176,089**	**$ 7,641**	**4.34%**	$ 176,041	$ 9,237	5.25%
Investment securities:						
Taxable securities	**433,269**	**17,650**	**4.07%**	423,088	16,442	3.89%
Tax-exempt securities	**49,511**	**1,310**	**2.65%**	50,868	1,322	2.60%
Restricted stock	**8,863**	**781**	**8.81%**	9,596	685	7.14%
Total investment securities	**491,643**	**19,741**	**4.02%**	483,552	18,449	3.82%
Gross Loans:						
Residential real estate 1-4 family:						
First liens	**263,557**	**14,932**	**5.67%**	222,572	11,442	5.14%
Junior liens and lines of credit	**87,410**	**5,177**	**5.92%**	76,515	4,635	6.06%
Residential real estate - construction	**45,862**	**3,089**	**6.74%**	28,096	1,954	6.95%
Commercial real estate	**865,233**	**51,324**	**5.93%**	747,037	42,975	5.75%
Commercial	**234,148**	**12,613**	**5.39%**	241,554	13,052	5.40%
Consumer	**8,531**	**758**	**8.89%**	7,322	645	8.81%
Total gross loans	**1,504,741**	**87,893**	**5.84%**	1,323,096	74,703	5.65%
Total interest-earning assets	**2,172,473**	**$ 115,275**	**5.31%**	1,982,689	$ 102,389	5.16%
Noninterest-earning assets	**90,773**			91,137		
Total assets	**$ 2,263,246**			$ 2,073,826		
Interest-bearing liabilities:						
Deposits:						
Interest checking	**$ 414,021**	**$ 2,516**	**0.61%**	$ 416,770	$ 2,632	0.63%
Money management	**759,135**	**19,467**	**2.56%**	627,163	18,782	2.99%
Savings	**95,255**	**91**	**0.10%**	101,335	173	0.17%
Time	**219,629**	**8,681**	**3.95%**	177,281	7,615	4.30%
Time - brokered	**84,790**	**3,939**	**4.65%**	33,183	1,704	5.14%
Total interest-bearing deposits	**1,572,830**	**34,694**	**2.21%**	1,355,732	30,906	2.28%
Subordinate notes	**17,453**	**1,281**	**7.34%**	19,680	1,050	5.34%
Federal Reserve Bank borrowings	**—**	**—**	**—**	41,667	1,962	4.71%
Federal Home Loan Bank borrowings	**200,000**	**8,750**	**4.38%**	219,883	10,019	4.56%
Total interest-bearing liabilities	**1,790,283**	**44,725**	**2.50%**	1,636,962	43,937	2.68%
Noninterest checking	**299,381**			282,460		
Other liabilities	**16,944**			16,564		
Shareholders' equity	**156,638**			137,840		
Total liabilities and shareholders' equity	**$ 2,263,246**			$ 2,073,826		
T/E net interest income/Net interest margin		**70,550**	**3.25%**		58,452	2.95%
Tax equivalent adjustment		**(904)**			(938)	
Net interest income		**$ 69,646**			$ 57,514	
Net interest spread			**2.81%**			2.48%
Cost of funds			**2.14%**			2.29%
Cost of deposits			**1.85%**			1.89%

Provision for Credit Losses

In 2025, the Bank recorded gross loan charge-offs of $167 thousand, which were partially offset by $139 thousand of recoveries, resulting in net loan charge-offs of $28 thousand. For 2025, the Corporation recorded $3.0 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 $20.7 million at year-end 2025 (1.32% of total loans), compared to $17.7 million at year-end 2024 (1.26% of total loans). The provision for credit losses for unfunded commitments was a reversal of $131 thousand for 2025 with a reserve balance of $1.9 million at year-end 2025, a decrease from $2.0 million at year-end 2024. 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, 2025 and 2024:

Table 4. Noninterest Income

(Dollars in thousands)	**2025**	2024	Change Amount	Change %
Noninterest Income				
Wealth management fees	**$ 9,169**	$ 8,538	$ 631	7.4
Loan service charges	**984**	987	(3)	(0.3)
Gain on sale of loans	**672**	565	107	18.9
Deposit service charges and fees	**2,535**	2,448	87	3.6
Other service charges and fees	**2,023**	2,040	(17)	(0.8)
Debit card income	**2,370**	2,279	91	4.0
Increase in cash surrender value of life insurance	**469**	457	12	2.6
Net (losses) gains on sales of debt securities	**—**	(4,267)	4,267	(100.0)
Change in fair value of equity securities	**(7)**	209	(216)	(103.3)
Other	**961**	423	538	127.2
Total	**$ 19,176**	$ 13,679	$ 5,497	40.2

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 $8.4 million for 2025 and $7.8 million for 2024. The fair value of assets under management was $1.421 billion at year-end, compared to $1.169 billion at the end of 2024. Estate fees were $458 thousand in 2025 compared to $508 thousand in 2024. By the nature of an estate settlement, these fees are considered nonrecurring. Commissions from the sale of insurance and investment products increased by $21 thousand compared to the prior year.

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 2025 compared to the prior year.

Deposit fees: This category is comprised primarily of fees from overdrafts, an overdraft protection program, service charges, and account analysis fees. The increase of $87 thousand in this category was due to an increase of account analysis fees partially offset by a decrease in overdraft protection program 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. Merchants card program fees increased $39 thousand while ATM fees decreased $86 thousand compared to the prior year.

Debit card income: Debit card fees are comprised of both a retail and business card program. Retail fees increased by $54 thousand, while business card fees increased $37 thousand compared to the prior year. 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 expenses.

Net (losses) gains on sales of debt securities: For 2025, there were no 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.

Other: This category increased in 2025 due to swap referral fees of $406 thousand and state sales tax refunds of $326 thousand.

Noninterest Expense

The following table presents a comparison of noninterest expense for the years ended December 31, 2025 and 2024:

Table 5. Noninterest Expense

(Dollars in thousands)			Change	
Noninterest Expense	**2025**	2024	Amount	%
Salaries	**$ 25,634**	$ 24,312	$ 1,322	5.4
Employee benefits	**9,695**	$ 8,440	$ 1,255	14.9
Net occupancy	**4,782**	4,583	199	4.3
Marketing and advertising	**1,726**	1,891	(165)	(8.7)
Legal and professional	**2,524**	2,133	391	18.3
Data processing	**6,117**	5,804	313	5.4
Pennsylvania bank shares tax	**570**	483	87	18.0
FDIC insurance	**1,980**	1,710	270	15.8
ATM/debit card processing	**1,387**	1,300	87	6.7
Telecommunications	**472**	435	37	8.5
Nonservice pension	**64**	(51)	115	(225.5)
Other	**4,705**	4,855	(150)	(3.1)
Total	**$ 59,656**	$ 55,895	$ 3,761	6.7

The most significant changes in noninterest expense are discussed below:

Salaries: This category is the largest noninterest expense category and increased by $1.3 million compared to the prior year from salary and commission increases due to merit and annual increases, and new positions.

Employee benefits: This category includes expenses for health benefits, insurance, pension service, employment taxes and other employee benefit programs. This category increased by $1.3 million compared to the prior year from health insurance increased $1.0 million, 401K match increased $149 thousand and stock compensation increased $147 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 2025 was due primarily to overall higher operating expenses.

Legal and professional fees: This category consists of fees paid to outside legal counsel, consultants, and audit fees, which increased due to the Corporation moving to accelerated filer status with the SEC at the end of 2025.

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 $2.4 million of the total data processing costs in 2025 and $2.2 million in 2024. The increase in total data processing expenses for 2025 was due primarily to increases in the core processing system.

Nonservice pension: The change in the nonservice pension expense was due to a lower expected return on plan assets and higher interest costs. See Note 17 of the accompanying consolidated financial statements for additional information on benefit plans.

Other: The decrease in 2025 was due to lower amortization of solar tax credits compared to 2024.

Provision for Income Taxes

In 2025, the Corporation recorded income tax expense of $5.0 million compared to $2.2 million in 2024. The effective tax rate was 19.2% for 2025 and 16.6% for 2024. The Corporation's 2025 and 2024 effective tax rates were 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 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, 2025, total assets increased 1.9% over the prior year to $2.239 billion from $2.198 billion at the end of 2024.

Interest Earning Deposits in Other Banks:

Short-term interest-earning deposits, held primarily at the Federal Reserve, decreased to $105.3 million at December 31, 2025 from $183.8 million at December 31, 2024, as these funds were used to support loan growth which exceeded deposit growth and cash flow from debt securities. Long-term interest-earning deposits decreased from $1.5 million at December 31, 2024 to $999 thousand at December 31, 2025. The average balance of interest-earning deposits increased to $176.1 million in 2025 compared to $176.0 million in 2024.

Investment Securities:

Available for Sale (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. The AFS portfolio holdings are classified by type of security issuer. Agency mortgage-backed and collateralized mortgage obligation securities are issued by a U.S. Government Agency or a government sponsored entity and securitized by pools are residential and commercial mortgages. Municipal securities are issued by state and local government entities and consist of taxable and tax-exempt securities. Many municipal securities have credit enhancements in the form of private bond insurance or other credit support. Corporate securities are mostly subordinated notes issued by community banks with the remainder consisting of trust preferred securities. Non-Agency mortgage-backed and collateralized mortgage obligation securities are issued by private entities and securitized by residential and commercial mortgages. Many of these securities benefit from credit enhancements in the form of subordinated tranches and overcollateralization. Asset-backed securities are issued by or insured by a U.S. Government Agency and securitized by loan pools other than mortgages. The weighted average life of the portfolio is 5.4 years, the effective duration (which measures the change in fair value for a 1% change in interest rates) is 4.8%, and $353.5 million (fair value) is pledged as collateral for public deposits, trust deposits, FHLB borrowing commitments and Federal Reserve Bank discount window availability. 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

	2025		2024	
(Dollars in thousands)	**Amortized Cost**	**Fair value**	Amortized Cost	Fair value
U.S. Treasury	$ **35,880**	$ **33,263**	$ 36,192	$ 31,797
Municipal	**154,301**	**137,839**	156,528	133,592
Corporate	**15,536**	**14,675**	26,356	24,224
Agency MBS & CMO	**135,308**	**129,860**	149,003	138,742
Non-agency MBS & CMO	**112,860**	**111,668**	154,554	149,170
Asset-backed	**27,519**	**27,281**	31,420	31,079
Total	$ **481,404**	$ **454,586**	$ 554,053	$ 508,604

The following table presents AFS investment securities at December 31, 2025 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	$ —	—	$ 26,212	1.24%	$ 7,051	1.57%	$ —	—	$ 33,263	1.31%
Municipal	—	—	15,559	2.21%	68,325	2.26%	53,955	2.09%	137,839	2.19%
Corporate	—	—	9,576	6.53%	4,167	4.07%	932	4.28%	14,675	5.62%
Agency MBS & CMO	—	—	23,259	1.74%	8,023	1.83%	98,578	3.90%	129,860	3.37%
Non-agency MBS & CMO	2,250	6.99%	4,672	5.33%	1,294	5.76%	103,452	4.58%	111,668	4.67%
Asset-backed	—	—	1,537	4.88%	2,177	3.39%	23,567	5.12%	27,281	4.97%
Total	$ 2,250	6.99%	$ 80,815	2.50%	$ 91,037	2.33%	$ 280,484	3.91%	$ 454,586	3.31%

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 3.75% in 2024 to 3.93% in 2025. Municipal bonds and Agency mortgage-backed securities comprise the largest sectors by fair value of the portfolio, approximately 30% and 29% respectively. The Bank expects that the portfolio will continue to remain concentrated in these investment sectors. The portfolio returned $72.5 million of principal cash flow in 2025 while no funds were invested into the portfolio during the year.

Municipal Bonds: This sector holds $137.8 million or 30% of the total portfolio and the amortized cost decreased by $2.2 million year over year. The Bank's municipal bond portfolio is well diversified geographically and is comprised of both tax-exempt (37% of the portfolio) and taxable (63% of the portfolio) municipal bonds. Seventy percent (70%) of the portfolio are general obligation bonds and thirty percent (30%) are revenue bonds. The portfolio holds bonds from 150 issuers within 32 states. The largest dollar exposures are in the states of Texas (15%), Pennsylvania (13%) and California (12%). 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 $11.2 million of subordinate debt purchased from 31 different community bank issuers. The purchased subordinate notes, except two having 15-year maturities, were issued on 10-year maturities with initial 5-year fixed interest rates, after which the notes were callable by the issuers and converted to variable interest rates. At December 31, 2025, $5.2 million of the outstanding subordinate notes were callable and accruing interest at variable interest rates, while the remaining $6.0 million of outstanding subordinate notes were within their initial 5-year fixed interest rate periods and were not callable.

Agency Mortgage-backed and Collateralized Mortgage Obligation Securities: This sector holds $129.9 million, or 29%, of the total portfolio with $100.0 million securitized by residential mortgages and $29.9 million securitized by commercial mortgages.

Non-Agency Mortgage-backed and Collateralized Mortgage Obligation Securities: This sector holds $111.7 million, or 25%, of the total portfolio with $103.5 million AAA rated by a nationally recognized statistical rating organization and $8.2 million unrated.

Asset-backed Securities: This sector holds $27.3 million, or 6%, of the total portfolio. The majority of these securities are student loan pools under the Federal Family Education Loan Program (FFELP) which are guaranteed by the U.S. Government.

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, 2025 and 2024, were determined not to be attributable to credit related factors; therefore, the Bank does not have an allowance for credit loss for these investments.

Restricted Stock at Cost

The Bank held $8.9 million of restricted stock at the end of 2025 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 Held for Sale:

At December 31, 2026, the Bank had $18.9 million of loans held for sale, compared to $2.5 million at December 31, 2024. The increase is due primarily to a decision by the Bank during the fourth quarter of 2025 to sell $15.8 million of residential mortgage loans originated in prior years as held for investment loans. Upon the decision to sell the loans, they were reclassified as held for sale. The Bank has an agreement to sell the loans at a fixed price and the sale is expected to be completed early in the first quarter of 2026.

Loans:

The loan portfolio increased by 11.7% ($163.2 million) in 2025, due primarily to an increase of $100.2 million in commercial real estate loans and $45.6 million in residential real estate 1-4 family loans. Average gross loans for 2025 increased by $181.6 million to $1.505 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 2025 to 5.84% from 5.65% in 2024. 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

			Change	
(Dollars in thousands)	**2025**	2024	Amount	%
Residential real estate 1-4 family				
Consumer first lien	$ **213,440**	$ 181,780	$ 31,660	17.4
Commercial first lien	**63,457**	58,821	4,636	7.9
Total first liens	**276,897**	240,601	36,296	15.1
Consumer junior lien and lines of credit	**84,650**	76,035	8,615	11.3
Commercial junior liens and lines of credit	**6,839**	6,199	640	10.3
Total junior liens and lines of credit	**91,489**	82,234	9,255	11.3
Total residential real estate 1-4 family	**368,386**	322,835	45,551	14.1
Residential real estate construction				
Consumer	**29,609**	20,742	8,867	42.8
Commercial	**24,516**	11,685	12,831	109.8
Total residential real estate construction	**54,125**	32,427	21,698	66.9
Commercial real estate	**903,571**	803,365	100,206	12.5
Commercial	**225,499**	230,597	(5,098)	(2.2)
Total commercial	**1,129,070**	1,033,962	95,108	9.2
Consumer	**9,657**	8,853	804	9.1
Total loans	**1,561,238**	1,398,077	163,161	11.7
Less: Allowance for credit losses	**(20,655)**	(17,653)	(3,002)	17.0
Net loans	$ **1,540,583**	$ 1,380,424	$ 160,159	11.6

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 non-commercial real estate. Total residential real estate loans increased $45.6 million in 2025, primarily in consumer first lien loans. In 2025, the Bank originated $136.1 million in mortgages compared to $123.1 million in 2024, including approximately $44.7 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, $29.6 million, represents loans for individuals to construct personal residences, while loans to residential real estate developers and home builders totaled $24.5 million at December 31, 2025. 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 $100.2 million over the prior year. The three largest sectors by collateral in 2025 were apartment buildings ($181.7 million), hotels & motels ($102.2 million), and development land ($97.0 million). Included in commercial real estate are approximately $714.1 million of nonowner occupied loans mostly located in the Bank's market area of south-central Pennsylvania. The Bank's CRE concentration ratio was 349.9% of risk-based capital at December 31, 2025 compared to 332.9% at December 31, 2024.

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

(Dollars in thousands)	December 31, 2025		December 31, 2024	
Commercial Real Estate (CRE) Sectors	**Owner Occupied**	**Non-owner Occupied**	**Owner Occupied**	**Non-owner Occupied**
Apartment buildings	$ 18,385	$ 163,356	$ 13,767	$ 132,894
Hotels & motels	5,963	96,231	18,263	79,197
Development land	8,163	88,884	6,543	60,102
Office buildings	24,587	68,241	24,357	68,569
Shopping centers	141	87,793	158	82,360

Also included in CRE are real estate construction loans totaling $220.9 million. At December 31, 2025, the Bank had $109.4 million in real estate construction loans funded with an interest reserve and capitalized $4.1 million of interest in 2025 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 $5.1 million over the 2024 ending balance. At December 31, 2025, the Bank had approximately $102 million of tax-free loans in its portfolio.

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

(Dollars in thousands)	December 31, 2025		December 31, 2024	
Commercial	**Amount**	**% of Commercial**	Amount	% of Commercial
Public administration	$ 40,095	18%	$ 43,184	19%
Utilities	35,621	16%	38,498	17%
Manufacturing	19,930	9%	16,930	7%
Real estate, rental & leasing	19,049	8%	23,162	10%
Arts, Entertainment & Recreation	15,459	7%	12,919	1%

Participations: At December 31, 2025, the outstanding commercial participations were $100.8 million (8.2% of commercial purpose loans and 6.5% of total gross loans), compared to $107.2 million (9.6% of commercial purpose loans and 7.7% of total gross loans) at the prior year-end. The Bank's total exposure (including unfunded commitments) to purchased participations was $129.3 million at December 31, 2025 and $133.1 million at December 31, 2024. The loan participations are comprised of $26.6 million of commercial loans and $74.2 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 $804 thousand in 2025 over 2024 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, 2025.

(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	$ 317	$ 8,197	$ 33,734	$ 28,160	$ 70,408
Variable rate	4,988	10,014	56,630	226,346	297,978
	5,305	18,211	90,364	254,506	368,386
Residential real estate construction					
Fixed rate	—	—	37	29,571	29,608
Variable rate	6,882	7,564	10,071	—	24,517
	6,882	7,564	10,108	29,571	54,125
Commercial real estate					
Fixed rate	338	57,244	70,312	415	128,309
Variable rate	15,388	223,632	495,872	40,370	775,262
	15,726	280,876	566,184	40,785	903,571
Commercial					
Fixed rate	12	23,062	58,019	—	81,093
Variable rate	48,661	17,362	38,752	39,631	144,406
	48,673	40,424	96,771	39,631	225,499
Consumer					
Fixed rate	24	2,066	1,717	1,434	5,241
Variable rate	594	537	3,285	—	4,416
	618	2,603	5,002	1,434	9,657
	$ 77,204	$ 349,678	$ 768,429	$ 365,927	$ 1,561,238

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 $58.8 million at year-end compared to $21.5 million one year earlier. At December 31, 2025, commercial real estate loans rated 7-Substandard increased by $15.7 million and commercial loans rated 6-OAEM increased by $21.6 million from the prior year end. Included in the watch list are $8.5 million of nonaccrual loans at year-end 2025, compared to $266 thousand at year-end 2024. 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 ageing report. The ageing 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 age 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, 2025, the Bank had loans of $16.0 million (1.0% of gross loans) that exceeded the supervisory loan-to value limit, compared to 1.0% at the prior year end.

Loan quality, as measured by nonaccrual loans, totaled $8.5 million at December 31, 2025 compared to $266 thousand at December 31, 2024 and the nonperforming loan to total loans ratio was 0.55% at December 31, 2025 compared to 0.02% at December 31, 2024. Loans past due 90-days or more, but still accruing, totaled $5 thousand at December 31, 2025 compared to $2 thousand at the prior year end. The increase in nonaccrual loans in 2025 was largely due to one commercial real estate loan for $7.1 million. This loan is a construction loan on a mixed-use commercial project. This construction loan is current on payments as of December 31, 2025, however, a specific reserve of $892 thousand has been established for this loan.

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, 2025 and 2024, the Bank had no modified loans to borrowers experiencing financial difficulty.

As of December 31, 2025, the Bank had outstanding loans to a related party of a Bank Director who is considered an "insider" under Regulation O. The loans were originated in the ordinary course of business and were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with non-affiliated persons.

The loans are currently classified as Substandard (rated 7) on the Bank's internal credit risk rating system, indicating potential weaknesses that warrant management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans. As of December 31, 2025, the outstanding balance of the loans was $4.7 million, and were not past due or on nonaccrual status.

The loans were approved in accordance with the Bank's policies and procedures for related party transactions and insider lending, including board-level review and compliance with Regulation O. Management continues to monitor the credit quality of the loans and does not believe they pose a material risk to the Corporation's financial condition.

No preferential terms were granted, and the Bank believes the transaction does not impair the independence or objectivity of the Director involved.

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, 2025 and 2024:

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
2025							
Loans at December 31, 2025	$ 276,897	$ 91,489	$ 54,125	$ 903,571	$ 225,499	$ 9,657	$ 1,561,238
Average Loans for 2025	263,557	87,410	45,862	865,233	234,148	8,531	1,504,741
Nonaccrual Loans at December 31, 2025	—	20	—	8,148	345	—	8,513
Allowance for Credit Losses at December 31, 2025	1,665	500	652	14,042	3,641	155	20,655
Net Recoveries/(Charge-offs) for 2025	—	—	11	1	57	(97)	(28)
Loans/Total Gross Loans at December 31, 2025	18%	6%	3%	58%	14%	1%	100%
Nonaccrual Loans/Total Gross Loans at December 31, 2025	0.00%	0.02%	0.00%	0.90%	0.15%	0.00%	0.55%
Allowance for Credit Loss/Gross Loans at December 31, 2025	0.60%	0.55%	1.20%	1.55%	1.61%	1.61%	1.32%
Net Recoveries (Charge-offs)/Average Loans for 2025	0.00%	0.00%	0.02%	0.00%	0.02%	-1.14%	0.00%
Allowance for Credit Loss/Nonaccrual Loans at December 31, 2025							242.63%
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%

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, 2025. The 2025 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 and did not make a further assessment.

The 2024 impairment test was also conducted using a qualitative assessment and Management determined the Bank's goodwill was likely not impaired in 2024 and did not make a further assessment.

At December 31, 2025, 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)	**2025**	2024	Amount	%
Noninterest-bearing checking	$ **310,251**	$ 290,346	$ 19,905	6.9
Interest-bearing checking	**431,843**	417,870	13,973	3.3
Money management	**771,231**	694,880	76,351	11.0
Savings	**98,124**	96,646	1,478	1.5
Time deposits	**202,266**	228,848	(26,582)	(11.6)
Time - brokered deposits	**22,057**	87,057	(65,000)	(74.7)
Total	$ **1,835,772**	$ 1,815,647	$ 20,125	1.1

Noninterest-bearing checking: This category increased $19.9 million and the average balance increased by $16.9 million for the year. As a noninterest bearing account, these deposits contributed approximately 35 basis points to the net interest margin.

Interest-bearing checking: This category increased $14.0 million in the ending balance compared to the prior year and decreased $2.7 million compared to the prior year average in 2025. The cost of these accounts decreased by 2 basis points year over year.

Money management: The year over year balance increased $76.4 million and the average balance increased $132.0 million compared to the 2024 average balance. The cost of this product decreased by 43 basis points during the year as market rates decreased.

Savings: These accounts increased $1.5 million during the year while the average balance decreased $6.1 million compared to the 2024 average balance. The cost of this product decreased by 7 basis points during the year as market rates decreased.

Time deposits: Total time deposits decreased by $91.6 million in 2025 with an increase in the average balance of $94.0 million. The cost of these accounts decreased from 4.43% to 4.15% as market rates decreased. Included in this category is $22.1 million of brokered CDs, which decreased $65.0 million over the prior year end balance of $87.1 million.

Reciprocal deposits: At year-end 2025, the Bank had $324.5 million placed in the IntraFi Network deposit program ($124.8 million in interest-bearing checking and $199.6 million in money management) and $24.5 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 for regulatory reporting purposes. At December 31, 2025, the Bank's reciprocal deposits were 17.0% of total liabilities compared to 16.1% at prior year-end.

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, 2025 were $399.8 million (21.8% of total deposits) compared to $411.6 million (22.7% of total deposits) at December 31, 2024 utilizing Call Report methodology. Certain Bank deposits may not be insured but are fully collateralized by other assets. The Bank estimates that approximately 87% of its deposits are FDIC insured or collateralized as of December 31, 2025.

At December 31, 2025, 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)	Total Time Deposits > $250,000	Time Deposits > $250,000 Not Covered by FDIC Insurance
Maturity distribution:		
Within three months	$ 54,562	$ 23,312
Over three through six months	3,332	832
Over six through twelve months	969	469
Over twelve months	509	9
Total	$ 59,372	$ 24,622

Borrowings:

As of December 31, 2025, 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 September 30, 2025, the Corporation redeemed $9.0 million of its $15.0 million fixed to floating subordinate notes due September 1, 2030 utilizing excess cash on hand. As of December 31, 2025, the Corporation had $11.0 million of unsecured subordinated debt notes remaining outstanding of which $6.0 million mature on September 1, 2030 and $5.0 million mature on September 1, 2035. The notes are recorded on the consolidated balance sheet net of remaining debt issuance costs totaling $155 thousand which is being amortized on a pro-rata basis, based on the maturity date of the notes, on an effective interest method. The subordinated notes totaling $6.0 million have a variable interest rate of 90-day Average Secured Overnight Financing Rate (SOFR) plus 4.93% and will reset quarterly. The subordinated notes totaling $5.0 million have a fixed interest rate of 5.25% through June 29, 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 at par, 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.

Shareholders' Equity:

Shareholders' equity increased by $30.5 million to $175.2 million at December 31, 2025. Retained earnings increased $15.4 million in 2025 from earnings of $21.2 million offset by dividends paid of $5.8 million ($1.31 per share). The dividend payout ratio was 27.5% in 2025 compared to 50.7% in 2024.

The Board of Directors periodically 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 $1.2 million to capital during 2025. This total was comprised of $1.0 million from the reinvestment of quarterly dividends and $213 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, 2025 was 5.27%. Compliance with the capital conservation buffer is required in order to avoid limitations on certain capital distributions, especially dividends. As of December 31, 2025, 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

	2025		2024	
	Corporation	**Bank**	Corporation	Bank
Common Equity Tier 1 risk-based capital ratio	**11.45%**	**12.02%**	11.31%	11.71%
Total risk-based capital ratio	**13.27%**	**13.27%**	13.85%	12.96%
Tier 1 risk-based capital ratio	**11.45%**	**12.02%**	11.31%	11.71%
Tier 1 leverage ratio	**8.17%**	**8.57%**	7.92%	8.20%

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

	2025	2024
Unemployment Rate (not seasonally adjusted)		
Market area range (1)	**3.5% - 4.8%**	2.7% - 3.8%
Pennsylvania (seasonally adjusted)	**4.1%**	3.4%
Maryland (seasonally adjusted)	**3.8%**	3.0%
United States (seasonally adjusted)	**4.6%**	4.2%
Housing Price Index - year over year change		
PA, nonmetropolitan statistical area	**4.9%**	9.5%
MD, nonmetropolitan statistical area	**9.8%**	2.1%
United States	**9.8%**	5.1%
Building Permits - year over year change -12 months (2)		
Residential, estimated	**-9.2%**	6.1%
Multifamily, estimated	**-3.6%**	46.0%

(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 2026, the FOMC release included this: "Available indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, and the unemployment rate has shown some signs of stabilization. Inflation remains somewhat elevated. The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate. In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 3 1/2 to 3 3/4 percent. 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 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 $93.6 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 and has access to $160.0 million, as of December 31, 2025, of reciprocal deposits placed by the Bank's Wealth Management department with a third-party reciprocal deposit network provider.

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 from borrowing sources at December 31, 2025.

(Dollars in thousands)

Liquidity Source	Capacity	Outstanding	Available
Federal Home Loan Bank	$ 734,597	$ 200,000	$ 534,597
Federal Reserve Bank Discount Window	131,072	—	131,072
Correspondent Banks	76,000	—	76,000
Total	$ 941,669	$ 200,000	$ 741,669

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	**2025**	2024
Commercial commitments to extend credit	**$ 300,228**	$ 328,806
Consumer commitments to extend credit (secured)	**153,183**	135,776
Consumer commitments to extend credit (unsecured)	**7,083**	5,352
	$ 460,494	$ 469,934
Standby letters of credit	**$ 29,880**	$ 28,815
ACL - Unfunded Commitments (1)	**$** 1,899	$ 2,030

(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	$ 80,379	6.4%
+200	$ 78,828	4.3%
+100	$ 77,248	2.2%
unchanged	$ 75,561	—
(100)	$ 73,276	(3.0)%
(200)	$ 71,177	(5.8)%
(300)	$ 68,749	(9.0)%

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Franklin Financial Services Corporation (the "Company") as of December 31, 2025 and 2024, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2025, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2025, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2025 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2025, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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.

Critical Audit Matter

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 – Application of Risk Assignments to Qualitative Factors

The allowance for credit losses (the "ACL") as described in Notes 1 and 6 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 we performed to address this critical audit matter included:

- Testing the effectiveness of internal controls over management's allowance for credit losses qualitative factors calculation including controls over:
  - The reasonableness of judgments used in the development of the qualitative factor framework.
  - Management's review of the accuracy of the calculation of the qualitative factors.
  - The relevance and reliability of the data used in the determination of the qualitative factors.
- Substantively testing management's process related to the determination of qualitative factors, which included 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 13, 2026

Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)	December 31, 2025	2024
Assets		
Cash and due from banks	**$ 22,446**	$ 19,848
Short-term interest-earning deposits in other banks	**105,275**	183,765
Total cash and cash equivalents	**127,721**	203,613
Long-term interest-earning deposits in other banks	**999**	1,499
Debt securities available for sale, at fair value	**454,586**	508,604
Equity securities	**—**	166
Restricted stock	**8,897**	8,775
Loans held for sale	**18,929**	2,470
Loans	**1,561,238**	1,398,077
Allowance for credit losses	**(20,655)**	(17,653)
Net Loans	**1,540,583**	1,380,424
Premises and equipment, net	**27,138**	29,039
Right of use asset	**3,657**	4,106
Bank owned life insurance	**23,207**	22,735
Goodwill	**9,016**	9,016
Deferred tax asset, net	**7,881**	10,831
Other assets	**16,404**	16,563
Total assets	**$ 2,239,018**	$ 2,197,841
Liabilities		
Deposits		
Noninterest-bearing checking	**$ 310,251**	$ 290,346
Money management, savings and interest checking	**1,301,198**	1,209,396
Time	**224,323**	315,905
Total deposits	**1,835,772**	1,815,647
Federal Home Loan Bank advances	**200,000**	200,000
Subordinate notes	**10,845**	19,699
Lease liability	**3,840**	4,263
Other liabilities	**13,319**	13,516
Total liabilities	**2,063,776**	2,053,125
Commitments and contingent liabilities		
Shareholders' equity		
Common stock, $1 par value per share,15,000,000 shares authorized with 4,710,972 shares issued and 4,481,149 shares outstanding at December 31, 2025 and 4,710,972 shares issued and 4,427,362 shares outstanding at December 31, 2024	**4,711**	4,711
Capital stock without par value, 5,000,000 shares authorized with no shares issued and outstanding	**—**	—
Additional paid-in capital	**43,932**	43,791
Retained earnings	**154,844**	139,463
Accumulated other comprehensive (loss) income	**(21,589)**	(35,508)
Treasury stock, 229,823 shares at December 31, 2025 and 283,610 shares at December 31, 2024, at cost	**(6,656)**	(7,741)
Total shareholders' equity	**175,242**	144,716
Total liabilities and shareholders' equity	**$ 2,239,018**	$ 2,197,841

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, 2025	2024
Interest income		
Loans, including fees	**$ 87,226**	$ 73,996
Interest and dividends on investments:		
Taxable interest	**17,648**	16,433
Tax exempt interest	**1,075**	1,093
Dividend income	**781**	692
Interest-earning deposits in other banks	**7,641**	9,237
Total interest income	**114,371**	101,451
Interest expense		
Deposits	**34,694**	30,906
Federal Reserve Bank borrowings	**—**	1,962
FHLB advances	**8,750**	10,019
Subordinate notes	**1,281**	1,050
Total interest expense	**44,725**	43,937
Net interest income	**69,646**	57,514
Provision for credit losses - loans	**3,030**	1,975
(Reversal of) provision for credit losses - unfunded commitments	**(131)**	8
Total provision for credit losses	**2,899**	1,983
Net interest income after provision for credit loss expense	**66,747**	55,531
Noninterest income		
Wealth management fees	**9,169**	8,538
Loan service charges	**984**	987
Gain on sale of loans	**672**	565
Deposit service charges and fees	**2,535**	2,448
Other service charges and fees	**2,023**	2,040
Debit card income	**2,370**	2,279
Increase in cash surrender value of life insurance	**469**	457
Net losses on sales of debt securities	**—**	(4,267)
Change in fair value of equity securities	**(7)**	209
Other	**961**	423
Total noninterest income	**19,176**	13,679
Noninterest Expense		
Salaries	**25,634**	24,312
Employee benefits	**9,695**	8,440
Net occupancy	**4,782**	4,583
Marketing and advertising	**1,726**	1,891
Legal and professional	**2,524**	2,133
Data processing	**6,117**	5,804
Pennsylvania bank shares tax	**570**	483
FDIC Insurance	**1,980**	1,710
ATM/debit card processing	**1,387**	1,300
Telecommunications	**472**	435
Nonservice pension	**64**	(51)
Other	**4,705**	4,855
Total noninterest expense	**59,656**	55,895
Income before income taxes	**26,267**	13,315
Income tax expense	**5,041**	2,216
Net income	**$ 21,226**	$ 11,099
Per share		
Basic earnings per share	**$ 4.76**	$ 2.52
Diluted earnings per share	**$ 4.74**	$ 2.51

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

Consolidated Statements of Comprehensive Income

(Dollars in thousands)	Years ended December 31, **2025**	2024
Net Income	**$ 21,226**	$ 11,099
Debt Securities		
Unrealized (losses) gains arising during the period	**18,631**	(300)
Reclassification adjustment for losses included in net income (1)	**—**	4,267
Reclassification adjustment for (losses) gains realized in income on fair value hedge (2)	**(2,199)**	2,300
Net unrealized gains (losses)	**16,432**	6,267
Tax effect	**(3,450)**	(1,316)
Net of tax amount	**12,982**	4,951
Pension		
Unrealized gains arising during the period	**1,277**	565
Reclassification for net actuarial losses included in net income (3)	**(91)**	44
Net unrealized gains	**1,186**	609
Tax effect	**(249)**	(128)
Net of tax amount	**937**	481
Total other comprehensive gain (loss)	**13,919**	5,432
Total Comprehensive Income (Loss)	**$ 35,145**	$ 16,531

(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, 2025 and 2024:

(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, 2024	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
Net income		—	—	**21,226**	—	—	**21,226**
Other comprehensive income		—	—	—	**13,919**	—	**13,919**
Cash dividends declared, $1.31 per share		—	—	**(5,845)**	—	—	**(5,845)**
Acquisition of treasury stock	**(45,532)**	—	**564**	—	—	**(1,668)**	**(1,104)**
Treasury shares issued under dividend reinvestment plan	**29,687**	—	**400**	—	—	**825**	**1,225**
Stock Compensation Plans:							
Treasury shares issued	**69,632**	—	**(1,642)**	—	—	**1,928**	**286**
Compensation expense		—	**819**	—	—	—	**819**
Balance at December 31, 2025	**4,481,149**	**$ 4,711**	**$ 43,932**	**$ 154,844**	**$ (21,589)**	**$ (6,656)**	**$ 175,242**

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

Consolidated Statements of Cash Flows

(Dollars in thousands)	December 31, 2025	2024
Cash flows from operating activities		
Net income	**$ 21,226**	$ 11,099
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**2,146**	2,090
Net amortization of loans and investment securities	**280**	2,968
Amortization of subordinate debt issuance costs	**146**	38
Provision for credit losses	**2,899**	1,983
Change in fair value of equity securities	**7**	(209)
Realized losses on sales of debt securities	**—**	4,267
Loans originated for sale	**(44,469)**	(43,086)
Proceeds from sale of loans	**44,459**	41,394
Gain on sale of loans held for sale	**(672)**	(565)
Increase in cash surrender value of life insurance	**(469)**	(457)
Gains from claims on life insurance policies	**—**	(78)
Stock option compensation	**819**	634
Pension plan contribution	**(1,000)**	—
Increase in other assets	**1,197**	1,077
(Decrease) increase in other liabilities	**(376)**	1,073
Deferred tax benefit	**(751)**	(473)
Net cash provided by operating activities	**25,442**	21,755
Cash flows from investing activities		
Net decrease in long-term interest-earning deposits in other banks	**500**	4,730
Proceeds from sales and calls of investment securities available for sale	**—**	42,413
Proceeds from maturities and pay-downs of securities available for sale	**72,489**	54,820
Purchase of investment securities available for sale	**—**	(136,268)
Net increase in restricted stock	**(122)**	(6,400)
Net increase in loans	**(179,183)**	(141,652)
Proceeds from surrender of life insurance policies	**—**	558
Proceeds from sale of equity securities	**161**	—
Capital expenditures	**(866)**	(2,567)
Net cash used in investing activities	**(107,021)**	(184,366)
Cash flows from financing activities		
Net increase in demand deposits, interest-bearing checking, and savings accounts	**111,707**	94,210
Net (decrease) increase in time deposits	**(91,582)**	183,459
Increase in long-term borrowings (FHLB)	**—**	200,000
(Decrease) in long-term borrowings (FHLB & FRB)	**—**	(130,000)
Redemption of subordinate notes	**(9,000)**	—
Dividends paid	**(5,845)**	(5,629)
Purchase of Treasury shares	**(1,104)**	(827)
Cash received from option exercises	**286**	122
Treasury shares issued under dividend reinvestment plan	**1,225**	1,749
Net cash provided by financing activities	**5,687**	343,084
(Decrease) increase in cash and cash equivalents	**(75,892)**	180,473
Cash and cash equivalents as of January 1	**203,613**	23,140
Cash and cash equivalents as of December 31	**$ 127,721**	$ 203,613
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest on deposits and other borrowed funds	**$ 45,562**	$ 43,105
Noncash Activities:		
Loans transferred to held for sale	**$ 15,777**	$ —
Lease liabilities arising from obtaining right-of-use assets	**147**	20

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, 2025 and 2024, 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.

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 $8.9 million of restricted stock at the end of 2025. 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, 2025.

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, 2025, 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, 2025 represent $3.1 million of loans originated through third-party brokerage agreements for a pre-determined price and present no price risk to the Bank. In addition, the Bank has $15.8 million of loans initially originated to be held-for-investment but are now under an agreement of sale at a predetermined price.

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 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, 2025 and 2024, 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. Premises no longer in use and held for sale are included in other assets on the consolidated balance sheets at the lower of carrying value or fair value and no depreciation is charged on them. At December 31, 2025 premises held for sale totaled $797 thousand and $0 at December 31, 2024.

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.

Solar Tax Credits – The Corporation has invested in various solar tax credit limited partnerships or LLCs. These partnerships develop, build and operate solar renewable energy partnerships. The Corporation acts as a limited partner in these investments and does not exercise control over the financial or operating policies of the partnerships and, as such, is not considered the primary beneficiary of the partnership.

The Corporation accounts for these investments using the deferral method. Under this method, the investment tax credit received is initially recorded as a deferred tax liability and recognized as a reduction of income tax expense over the estimated useful life of the underlying solar energy assets, typically consistent with the period over which the related depreciation is recognized. The Corporation classifies the tax credits earned and the related amortization of the deferred investment tax credit as components of income tax expense in the Consolidated Statements of Income.

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 $1.4 billion at December 31, 2025 and $1.3 billion at December 31, 2024.

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 $1.9 million at December 31, 2025 and $2.0 million at December 31, 2024.

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)	**2025**	2024
Weighted average shares outstanding (basic)	**4,463**	4,403
Impact of common stock equivalents	**13**	11
Weighted average shares outstanding (diluted)	**4,476**	4,414
Anti-dilutive options excluded from calculation	**—**	—
Net income	**$ 21,226**	$ 11,099
Basic earnings per share	**$ 4.76**	$ 2.52
Diluted earnings per share	**$ 4.74**	$ 2.51

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 2023-07, 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.

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		Effective for annual periods beginning after December 15, 2024.
Effect on the Consolidated Financial Statements		The Corporation adopted the ASU retrospectively in the current period. The adoption of this standard resulted in additional disclosures in the Corporation's Consolidated Financial Statements, but it did not materially impact the Corporation's results of operations.

Recently issued but not yet effective accounting standards

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.

ASU 2025-08, Financial Instruments - Credit Losses (Topic 326) Purchased Loans		
Description		This ASU amends the guidance on the accounting for certain purchased loans. The new guidance makes significant changes to the accounting for certain acquired seasoned loans subject to the current expected credit loss model.
Effective Date		Effective beginning January 1, 2027. Early adoption is permitted.
Effect on the Consolidated Financial Statements		The ASU is not expected to have a significant 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 $177.9 million at December 31, 2025. 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, 2025, 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, 2025 was 5.27%. Compliance with the capital conservation buffer is required in order to avoid limitations on certain capital distributions, especially dividends. As of December 31, 2025, the Bank was "well capitalized' under the Basel III requirements.

On December 31, 2025, the Corporation had $11.0 million of unsecured subordinated debt notes payable of which $6.0 million mature on September 1, 2030 and $5.0 million mature on September 1, 2035. The notes are recorded on the consolidated balance sheet net of remaining debt issuance costs totaling $155 thousand which is being amortized on a pro-rata basis, based on the maturity date of the notes, on an effective interest method. The subordinated notes totaling $6.0 million have a variable interest rate of 90-day Average Secured Overnight Financing Rate (SOFR) plus 4.93% and will reset quarterly. The subordinated notes totaling $5.0 million have a fixed interest rate of 5.25% through June 29, 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 at par, in whole or in part, at any time 5-years prior to the maturity. The notes are structured to qualify as Tier 2 Capital (subject to regulatory deductions after the last 5 years of the term) 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, 2025					
			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	**$ 187,815**	**11.45%**	**$ 73,802**	**N/A**	**N/A**	**N/A**
Bank	**197,096**	**12.02%**	**73,798**	**4.50%**	**$ 106,597**	**6.50%**
Tier 1 Risk-based Capital Ratio (2)						
Corporation	**$ 187,815**	**11.45%**	**$ 98,403**	**N/A**	**N/A**	**N/A**
Bank	**197,096**	**12.02%**	**98,397**	**6.00%**	**$ 131,196**	**8.00%**
Total Risk-based Capital Ratio (3)						
Corporation	**$ 217,639**	**13.27%**	**$ 131,204**	**N/A**	**N/A**	**N/A**
Bank	**217,620**	**13.27%**	**131,196**	**8.00%**	**$ 163,995**	**10.00%**
Tier 1 Leverage Ratio (4)						
Corporation	**$ 187,815**	**8.17%**	**$ 92,000**	**N/A**	**N/A**	**N/A**
Bank	**197,096**	**8.57%**	**91,994**	**4.00%**	**$ 114,993**	**5.00%**

	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%

(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, 2025 and 2024. At December 31, 2025, the Corporation had posted cash collateral of $6.5 million to a counterparty in a derivative transaction, compared to $5.2 million at December 31, 2024.

Note 4. Investments

Available for Sale (AFS) Securities

The following tables summarize the amortized cost and fair value of securities available-for-sale at December 31, 2025 and 2024 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss).

(Dollars in thousands) December 31, 2025	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury	$ 35,880	$ —	$ (2,617)	$ 33,263
Municipal	154,301	—	(16,462)	137,839
Corporate	15,536	—	(861)	14,675
Agency MBS & CMO	135,308	136	(5,584)	129,860
Non-agency MBS & CMO	112,860	477	(1,669)	111,668
Asset-backed	27,519	78	(316)	27,281
Total	$ 481,404	$ 691	$ (27,509)	$ 454,586

(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 MBS & CMO	149,003	15	(10,276)	138,742
Non-agency MBS & CMO	154,554	45	(5,429)	149,170
Asset-backed	31,420	163	(504)	31,079
Total	$ 554,053	$ 261	$ (45,710)	$ 508,604

At December 31, 2025 and 2024, the fair value of investment securities pledged to secure public deposits, trust deposits, FHLB borrowing commitments and Federal Reserve Bank discount window availability totaled $353.5 million and $207.2 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, 2025, 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	54,230	51,347
Due after five years through ten years	89,682	79,543
Due after ten years	61,805	54,887
	205,717	185,777
MBS, CMO & ABS	275,687	268,809
Total	$ 481,404	$ 454,586

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

(Dollars in thousands)	2025	2024
Proceeds	$ —	$ 42,413
Gross gains realized	—	—
Gross losses realized	—	(4,267)
Net (losses)/gains realized	$ —	$ (4,267)
Tax benefit on net losses realized	$ —	$ 896

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, 2025 and 2024. 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, 2025 and 2024, 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, 2025								
	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	$ —	$ —	—	$ 33,263	$ (2,617)	13	$ 33,263	$ (2,617)	13
Municipal	1,683	(192)	4	136,156	(16,270)	162	137,839	(16,462)	166
Corporate	986	(6)	1	13,389	(855)	26	14,375	(861)	27
Agency MBS & CMO	776	(2)	10	118,183	(5,582)	170	118,959	(5,584)	180
Non-agency MBS & CMO	1,870	(3)	3	74,365	(1,666)	40	76,235	(1,669)	43
Asset-backed	2,768	(18)	5	15,538	(298)	32	18,306	(316)	37
Total unrealized losses	$ 8,083	$ (221)	23	$ 390,894	$ (27,288)	443	$ 398,977	$ (27,509)	466

	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 MBS & CMO	54,388	(2,250)	15	82,110	(8,026)	183	136,498	(10,276)	198
Non-agency MBS & CMO	79,422	(2,974)	26	53,615	(2,455)	50	133,037	(5,429)	76
Asset-backed	733	(1)	3	19,061	(503)	34	19,794	(504)	37
Total unrealized losses	$ 134,543	$ (5,225)	44	$ 342,370	$ (40,485)	494	$ 476,913	$ (45,710)	538

Equity Securities at fair value

The Corporation owned one equity investment with a readily determinable fair value at December 31, 2024 of $166 thousand. This investment was sold in 2025.

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 to 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 are primarily dependent on the sale of finished homes for repayment. Risks associated with these loans include the borrower's character and capacity to complete a home, the effect of economic conditions on the valuation of 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 contractor. 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 apartment buildings, retail space, office buildings, warehouses, hotels and motels, manufacturing facilities, agricultural land and may have personal guarantees or UCC filings on other business assets, depending on the financial strength of the borrower. Also included in this segment are loans for the construction of commercial real estate buildings and residential site development. Construction loans may incur additional risks such as cost overruns, delays in construction, or contractor problems. Residential site development loans are primarily dependent on the sale of improved lots for repayment. 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 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)	**2025**	2024
Residential Real Estate 1-4 Family		
Consumer first liens	**$ 213,440**	$ 181,780
Commercial first lien	**63,457**	58,821
Total first liens	**276,897**	240,601
Consumer junior liens and lines of credit	**84,650**	76,035
Commercial junior liens and lines of credit	**6,839**	6,199
Total junior liens and lines of credit	**91,489**	82,234
Total residential real estate 1-4 family	**368,386**	322,835
Residential real estate - construction		
Consumer	**29,609**	20,742
Commercial	**24,516**	11,685
Total residential real estate construction	**54,125**	32,427
Commercial real estate	**903,571**	803,365
Commercial	**225,499**	230,597
Total commercial	**1,129,070**	1,033,962
Consumer	**9,657**	8,853
	1,561,238	1,398,077
Less: Allowance for credit losses	**(20,655)**	(17,653)
Net Loans	**$ 1,540,583**	$ 1,380,424
Included in the loan balances are the following:		
Net unamortized deferred loan costs	**$ 1,957**	$ 1,766
Loans pledged as collateral for borrowings and commitments from:		
FHLB	**$ 863,693**	$ 775,410
Federal Reserve Bank	**193,640**	96,592
Total	**$ 1,057,333**	$ 872,002

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

(Dollars in thousands)	**2025**	2024
Balance at beginning of year	$ **11,743**	$ 11,545
Change in reporting status	**(3,452)**	—
Advances	**16,275**	18,476
Payments	**(14,864)**	(18,278)
Balance at end of year	$ **9,702**	$ 11,743

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, 2025 is adequate.

At December 31, 2025, the Bank had outstanding loans to a related party of a Bank Director who is considered and "insider" under Regulation O. The loans are currently classified as substandard (rated 7) on the Bank's internal credit risk rating system, indicating potential weaknesses that warrant management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans. At December 31, 2025, the outstanding balance of the loans was $4.7 million, and were not past due or on nonaccrual status.

The following table presents loans by year of origination and internally assigned risk ratings as of December 31, 2025:

(Dollars in thousands)

As of December 31, 2025	Term Loans Amortized Cost Basis by Origination Year 2025	2024	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Residential real estate 1-4 family:									
Commercial:									
Risk rating:									
Pass (1-5)	$ 6,601	$ 4,914	$ 14,483	$ 6,381	$ 8,982	$ 23,381	$ 5,237	$ —	$ 69,979
OAEM (6)	—	—	—	—	—	—	95	—	95
Substandard (7)	—	—	—	—	—	222	—	—	222
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total Commercial	6,601	4,914	14,483	6,381	8,982	23,603	5,332	—	70,296
Consumer:									
Performing	35,726	45,927	60,145	27,930	13,385	31,675	67,410	15,872	298,070
Nonperforming	—	—	—	—	—	—	20	—	20
Total Consumer	35,726	45,927	60,145	27,930	13,385	31,675	67,430	15,872	298,090
Total	$ 42,327	$ 50,841	$ 74,628	$ 34,311	$ 22,367	$ 55,278	$ 72,762	$ 15,872	$ 368,386
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate construction:									
Commercial:									
Risk rating:									
Pass (1-5)	$ 4,228	$ 16,503	$ 1,204	$ —	$ 1,093	$ 1,488	$ —	$ —	$ 24,516
OAEM (6)	—	—	—	—	—	—	—	—	—
Substandard (7)	—	—	—	—	—	—	—	—	—
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total Commercial	4,228	16,503	1,204	—	1,093	1,488	—	—	24,516
Consumer:									
Performing	24,744	4,865	—	—	—	—	—	—	29,609
Nonperforming	—	—	—	—	—	—	—	—	—
Total Consumer	24,744	4,865	—	—	—	—	—	—	29,609
Total	$ 28,972	$ 21,368	$ 1,204	$ —	$ 1,093	$ 1,488	$ —	$ —	$ 54,125
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate:									
Risk rating:									
Pass (1-5)	$ 137,253	$ 126,702	$ 206,916	$ 96,083	$ 84,154	$ 189,407	$ 12,236	$ —	$ 852,751
OAEM (6)	—	—	12,956	448	689	11,924	—	—	26,017
Substandard (7)	—	544	22,040	239	—	1,980	—	—	24,803
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total	$ 137,253	$ 127,246	$ 241,912	$ 96,770	$ 84,843	$ 203,311	$ 12,236	$ —	$ 903,571
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial:									
Risk rating:									
Pass (1-5)	$ 17,563	$ 23,890	$ 11,979	$ 19,675	$ 33,813	$ 65,515	$ 45,425	$ —	$ 217,860
OAEM (6)	—	—	8	359	1,323	—	198	—	1,888
Substandard (7)	—	553	—	583	—	—	4,615	—	5,751
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total	$ 17,563	$ 24,443	$ 11,987	$ 20,617	$ 35,136	$ 65,515	$ 50,238	$ —	$ 225,499
Current period gross charge-offs	$ (9)	$ —	$ (17)	$ —	$ (2)	$ (8)	$ —	$ —	$ (36)
Consumer:									
Performing	1,853	1,145	709	201	1,499	—	4,245	—	9,652
Nonperforming	—	—	—	—	—	—	5	—	5
Total	$ 1,853	$ 1,145	$ 709	$ 201	$ 1,499	$ —	$ 4,250	$ —	$ 9,657
Current period gross charge-offs	$ (71)	$ (6)	$ (18)	$ (3)	$ (1)	$ (2)	$ (30)	$ —	$ (131)

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 presents the amortized cost basis of loans on nonaccrual status and loans past due over 90 days and still accruing as of December 31, 2025 and 2024:

(Dollars in thousands)	December 31, 2025 Nonaccrual and Loans Past Due Over 90 Days+			December 31, 2024 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, 2025						
Residential Real Estate 1-4 Family						
First liens	$ —	$ —	$ —	$ —	$ —	$ —
Junior liens and lines of credit	20	—	—	—	—	—
Total	20	—	—	—	—	—
Residential real estate - construction	—	—	—	—	—	—
Commercial real estate	1,029	7,119	—	—	—	—
Commercial	55	290	—	266	—	—
Consumer	—	—	5	—	—	2
Total	$ 1,104	$ 7,409	$ 5	$ 266	$ —	$ 2

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.

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The following table presents the aging of payments in the loan portfolio as of December 31, 2025 and 2024:

(Dollars in thousands)

	Loans Past Due			Total		Total
	30-59 Days	60-89 Days	90 Days+	Past Due	Current	Loans
December 31, 2025						
Residential Real Estate 1-4 Family						
First liens	$ 145	$ 855	$ —	$ 1,000	$ 275,897	$ 276,897
Junior liens and lines of credit	333	160	20	513	90,976	91,489
Total	478	1,015	20	1,513	366,873	368,386
Residential real estate - construction	—	—	—	—	54,125	54,125
Commercial real estate	542	—	1,029	1,571	902,000	903,571
Commercial	500	1	345	846	224,653	225,499
Consumer	55	19	5	79	9,578	9,657
Total	$ 1,575	$ 1,035	$ 1,399	$ 4,009	$ 1,557,229	$ 1,561,238

	Loans Past Due			Total		Total
December 31, 2024	30-59 Days	60-89 Days	90 Days+	Past Due	Current	Loans
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

At December 31, 2025 and 2024, the Bank had $0 of residential properties in the process of foreclosure. Interest not recognized on nonaccrual loans was $425 thousand for the year ended December 31, 2025 and $8 thousand for the year ended December 31, 2024.

No loan modifications were made to borrowers experiencing financial difficulties during 2025 and 2024.

Allowance for Credit Losses:

The following table shows the activity in the Allowance for Credit Loss (ACL), for the years ended December 31, 2025 and 2024:

	Residential Real Estate 1-4 Family						
(Dollars in thousands)	First Liens	Junior Liens & Lines of Credit	Construction	Commercial Real Estate	Commercial	Consumer	Total
ACL at December 31, 2024	**$ 1,497**	**$ 461**	**$ 376**	**$ 12,004**	**$ 3,182**	**$ 133**	**$ 17,653**
Charge-offs	**—**	**—**	**—**	**—**	**(36)**	**(131)**	**(167)**
Recoveries	**—**	**—**	**11**	**1**	**93**	**34**	**139**
Provision	**168**	**39**	**265**	**2,037**	**402**	**119**	**3,030**
ACL at December 31, 2025	**$ 1,665**	**$ 500**	**$ 652**	**$ 14,042**	**$ 3,641**	**$ 155**	**$ 20,655**
ALL 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

At December 31, 2025, there was one collateral dependent loan for $7.1 million secured by real estate and one collateral dependent loan for $290 thousand secured by business assets compared to one collateral dependent loan for $266 thousand secured by real estate at December 31, 2024.

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	**2025**	2024
Land		**$ 3,833**	$ 3,935
Buildings and leasehold improvements	15 - 30 years, or lease term	**34,268**	34,880
Furniture, fixtures and equipment	3 - 10 years	**10,978**	10,241
Total cost		**49,080**	49,056
Less: Accumulated depreciation		**(21,942)**	(20,017)
Net premises and equipment		**$ 27,138**	$ 29,039

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

	2025	2024
Depreciation expense	**$ 2,070**	$ 1,758

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)	**2025**	2024
Operating lease cost	**$ 724**	$ 764
Short-term lease cost	**15**	3
Variable lease cost	**162**	156
Total lease cost	**$ 901**	$ 923

Supplemental Lease Information:

(Dollars in thousands)	For the years ended December 31,	
Cash paid for amounts included in the measurement of lease liabilities:	**2025**	2024
Operating cash flows from operating leases	$ **713**	$ 733
Weighted-average remaining lease term (years)	**11.2**	11.6
Weighted-average discount rate	**3.64%**	3.48%

Lease Obligations:
Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2025 are as follows:

(Dollars in thousands)	
2026	$ **601**
2027	**467**
2028	**416**
2029	**420**
2030	**397**
2031 and beyond	**2,412**
Undiscounted cash flows	**4,712**
Imputed interest	**(872)**
Total lease liability	$ **3,840**

Note 9. Other Real Estate Owned

The Bank had no other real estate owned at December 31, 2025 and 2024.

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, 2025. The 2025 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 2025 and did not make a further assessment.

The 2024 impairment test was also conducted using a qualitative assessment and Management determined the Bank's goodwill was not likely impaired in 2024 and did not make a further assessment.

At December 31, 2025, 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.

Note 11. Deposits

Deposits are summarized as follows at December 31:

(Dollars in thousands)	**2025**	2024
Noninterest-bearing checking	**$ 310,251**	$ 290,346
Interest-bearing checking	**431,843**	417,870
Money management	**771,231**	694,880
Savings	**98,124**	96,646
Total interest-bearing checking and savings	**1,301,198**	1,209,396
Time deposits	**202,266**	228,848
Time - brokered deposits	**22,057**	87,057
Total time deposits	**224,323**	315,905
Total deposits	**$ 1,835,772**	$ 1,815,647
Overdrawn deposit accounts reclassified as loans	**$ 178**	$ 136

Time deposits greater than $250,000 at December 31, 2025 and 2024 were $55.9 million and $77.4 million, respectively.

At December 31, 2025 the scheduled maturities of time deposits are as follows:

(Dollars in thousands)	**Time Deposits**
2026	**$ 177,044**
2027	**34,200**
2028	**6,289**
2029	**4,243**
2030	**2,547**
Total	**$ 224,323**

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, 2025 and 2024.

At December 31, 2025 and 2024, other borrowings were:

	December 31	
(Dollars in thousands)	**2025**	2024
FHLB maturing January 12, 2027, with fixed rate at 4.32%	**$ 200,000**	$ 200,000
	$ 200,000	$ 200,000

The Bank's maximum borrowing capacity with the FHLB at December 31, 2025 was $734.6 million with $534.6 million available to borrow. This borrowing capacity is secured by a Blanket Pledge Agreement with FHLB on the Bank's real estate loan portfolio ($863.7 million) together with pledged securities with a fair value of $151.2 million.

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

(Dollars in thousands)	
2026	$ -
2027	200,000
2028	-
2029	-
2030	-
	$ 200,000

The Bank has established credit at the Federal Reserve Discount Window and as of year-end had the ability to borrow approximately $131 million. The Bank also has $76.0 million in unsecured lines of credit at three correspondent banks.

Note 13. Subordinate Notes

On September 30, 2025, the Corporation redeemed $9.0 million of its $15.0 million fixed to floating subordinate notes due September 1, 2030 utilizing excess cash on hand. On December 31, 2025, the Corporation had $11.0 million of unsecured subordinated debt notes payable of which $6.0 million mature on September 1, 2030 and $5.0 million mature on September 1, 2035. The notes are recorded on the consolidated balance sheet net of remaining debt issuance costs totaling $155 thousand which is being amortized on a pro-rata basis, based on the maturity date of the notes, on an effective interest method. The subordinated notes totaling $6.0 million have a variable interest rate of 90-day Average Secured Overnight Financing Rate (SOFR) plus 4.93% and will reset quarterly. The subordinated notes totaling $5.0 million have a fixed interest rate of 5.25% through June 29, 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 at par, 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

Pretax income is entirely related to domestic activities and the Corporation did not have any foreign operations.

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

	For the Years Ended December 31	
(Dollars in thousands)	**2025**	2024
Current tax expense (benefit)		
Federal	$ **5,496**	$ 2,567
State	**296**	122
Total current tax expense (benefit)	**5,792**	2,689
Deferred tax expense (benefit)		
Federal	**(698)**	(437)
State	**(53)**	(36)
Total deferred tax expense (benefit)	**(751)**	(473)
Total income tax provision	$ **5,041**	$ 2,216

Income taxes paid were as follows:

(Dollars in thousands)	**2025**	2024
Federal	$ 5,220	$ 1,700
Other	125	159
Total	$ 5,345	$ 1,859

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	**2025**	2024
Allowance for credit losses	**$ 4,591**	$ 3,810
Deferred compensation	**1,014**	951
Purchase accounting	**—**	20
Accumulated other comprehensive loss	**5,739**	9,439
Lease liabilities	**836**	920
Other	**634**	605
Total gross deferred tax assets	**12,814**	15,745
Deferred Tax Liabilities		
Depreciation	**2,828**	2,936
Right-of-use asset	**796**	886
Joint ventures and partnerships	**56**	48
Pension	**827**	663
Deferred loan fees and costs, net	**426**	381
Total gross deferred tax liabilities	**4,933**	4,914
Net deferred tax asset	**$ 7,881**	$ 10,831

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.

For the years ended December 31, 2025 and 2024, 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 2025 and 2024. 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)	**2025**	**%**	2024	**%**
Tax provision at statutory rate	$ **5,516**	**21.0%**	$ 2,796	21.0%
State income taxes, net of federal tax effect (1)	**215**	**0.8%**	81	**0.6%**
Nontaxable or nondeductible items				
Nontaxable interest income	**(831)**	**-3.2%**	(881)	-6.6%
Appreciation in cash surrender value of life insurance	**(90)**	**-0.3%**	(107)	-0.8%
Disallowed interest expense	**290**	**1.1%**	323	2.4%
Share-based compensation	**(26)**	**-0.1%**	12	0.1%
Other nondeductible expenses	**(33)**	**-0.1%**	(8)	-0.1%
Income tax provision	$ **5,041**	**19.2%**	$ 2,216	16.6%

(1) The State of Maryland made up the majority (greater than 50%) of the tax effect in this category

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 2025 or 2024. The Corporation had no uncertain tax positions at December 31, 2025. The Corporation is no longer subject to U.S. Federal and state examinations by tax authorities for the years before 2022.

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	
	2025	2024
Net unrealized losses on debt securities	$ **(26,717)**	$ (43,149)
Tax effect	**5,611**	9,061
Ending balance	$ **(21,106)**	$ (34,088)
Accumulated pension adjustment	$ **(611)**	$ (1,797)
Tax effect	**128**	377
Net of tax amount	$ **(483)**	$ (1,420)
Total accumulated other comprehensive loss	$ **(21,589)**	$ (35,508)

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, 2025, the Corporation had posted cash collateral of $6.5 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, 2025 and 2024:

	Fair Value of Derivative Instruments					
	Derivative Liabilities					
(Dollars in thousands)	**As of December 31, 2025**			As of December 31, 2024		
	Notional amount	Balance Sheet Location	Fair Value	Notional amount	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments						
Interest rate swaps	$ **100,344**	Other Assets	$ **124**	$ 111,087	Other Assets	$ 2,275
Total derivatives designated as hedging instruments			$ **124**			$ 2,275
Derivatives not designated as hedging instruments						
Other Contracts	$ **5,853**	Other Liabilities	$ —	$ 6,064	Other Liabilities	$ —
Total derivatives not designated as hedging instruments			$ —			$ —

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, 2025 and 2024:

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
		2025 2024
Interest rate swaps	Investment income	$ **714** $ 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, 2025 and 2024:

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
		2025 2024
Other Contracts	Other income	$ **-** $ 1

The table below presents the carrying amount of the derivative financial instruments as of December 31, 2025 and 2024:

(Dollars in thousands)	Carrying amount of the hedged items Year Ended December 31		Cumulative amount of fair value hedging instruments Year Ended December 31	
	2025	2024	**2025**	2024
Investment securities, AFS (1)	**$ 104,042**	$ 112,261	**$ (101)**	$ (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, 2025, the fair value of the closed portfolio used in these hedging relationships was $103.3 million and the notional amount was $121.3 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 $1.6 million in 2025 and $1.3 million in 2024. 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 $104 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 2025 and 2024 actuarial valuations:

	For the Years Ended December 31	
(Dollars in thousands)	**2025**	2024
Change in projected benefit obligation		
Benefit obligation at beginning of measurement year	**$ 13,248**	$ 13,129
Service cost	**212**	219
Interest cost	**796**	769
Actuarial (gain) loss	**(26)**	(14)
Benefits paid	**(899)**	(855)
Benefit obligation at end of measurement year	**13,331**	13,248
Change in plan assets		
Fair value of plan assets at beginning of measurement year	**14,521**	13,962
Actual return on plan assets net of expenses	**1,893**	1,414
Employer contribution	**1,000**	—
Benefits paid	**(899)**	(855)
Fair value of plan assets at end of measurement year	**16,515**	14,521
Funded status of projected benefit obligation	**$ 3,184**	$ 1,273

	For the Years Ended December 31	
	2025	2024
Assumptions used to determine benefit obligations:		
Discount rate	**6.14%**	6.32%
Rate of compensation increase	**4.00%**	5.00%
Expected long-term return on plan assets	**6.50%**	6.00%

(Dollars in thousands)		
Amounts recognized in accumulated other comprehensive income (loss), net of tax	For the Years Ended December 31	
	2025	2024
Net actuarial loss	**$ (611)**	$ (1,797)
Tax effect	**128**	377
Net amount recognized in accumulated other comprehensive loss	**$ (483)**	$ (1,420)

(Dollars in thousands)	For the Years Ended December 31	
Components of net periodic pension cost	**2025**	2024
Service cost	**$ 212**	$ 219
Interest cost	**796**	769
Expected return on plan assets	**(823)**	(863)
Recognized net actuarial loss	**91**	43
Total net periodic pension cost	**$ 276**	$ 168

	For the Years Ended December 31	
	2025	2024
Assumptions used to determine net periodic benefit cost:		
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%

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, 2025 and 2024. For more information on the levels within the fair value hierarchy, please refer to Note 22.

(Dollars in Thousands)

	December 31, 2025				
Asset Description	**Allocations**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	**2%**	**$ 336**	**$ 336**	**$ —**	**$ —**
Equity securities	**27%**	**4,474**	**4,474**	—	—
Corporate bonds	**15%**	**2,515**	**—**	**2,515**	**—**
Municipal bonds	**18%**	**2,952**	**—**	**2,952**	**—**
Investment fund - debt	**15%**	**2,460**	**2,460**	**—**	**—**
Investment fund - equity	**20%**	**3,260**	**3,260**	**—**	**—**
Deposit in immediate participation guarantee contract	**3%**	**505**	**505**	**—**	**—**
Cash surrender value of life insurance	—	**13**	**—**	**—**	**13**
Total assets	**100%**	**$ 16,515**	**$ 11,035**	**$ 5,467**	**$ 13**

(Dollars in Thousands)

	December 31, 2024				
Asset Description	Allocations	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	3%	$ 473	$ 473	$ —	$ —
Equity securities	29%	4,256	4,256	—	—
Corporate bonds	17%	2,470	—	2,470	—
Municipal bonds	24%	3,469	—	3,469	—
Investment fund - debt	6%	856	856	—	—
Investment fund - equity	18%	2,623	2,623	—	—
Deposit in immediate participation guarantee contract	2%	361	361	—	—
Cash surrender value of life insurance	—	13	—	—	13
Total assets	100%	$ 14,521	$ 8,569	$ 5,939	$ 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, 2025 and 2024:

	Cash Value of Life Insurance December 31	
(Dollars in thousands)	**2025**	2024
Balance at the beginning of the period	**$ 13**	$ 13
Unrealized gain (loss) relating to investments held at the reporting date	**—**	—
Purchases, sales, issuances and settlement, net	**—**	—
Balance at the end of the period	**$ 13**	$ 13

Contributions

The Bank does not expect to make any contributions in 2026.

Estimated future benefit payments at December 31, 2025 (*Dollars in Thousands*)

2026	$ 1,627
2027	1,685
2028	1,139
2029	837
2030	1,033
2031-2035	4,910

Note 18. Stock Based Compensation

In 2024, Corporation adopted the Employee Stock Purchase Plan of 2004 (ESPP). Under this plan, eligible employees were granted options to purchase shares of the Corporation's common stock over a one-year period, at a 10% discount to the fair market value of a share on the day the option was granted and was considered a non-compensatory plan. This plan expired in 2025, and no options awarded under this plan are outstanding as of December 31, 2025.

In 2025, shareholders approved and the Corporation adopted the Employee Stock Purchase Plan of 2025. Under the ESPP of 2025, participating employees may purchase common stock of the Corporation at a discount (not to exceed 15%) to the lower of the fair market value of a share at the first trading day of the offering period or the last trading day of the offering period. Employee participation is voluntary. The Corporation reserved 250,000 shares of its common stock for the ESPP of 2025.

The following table summarizes activity for the ESPP of 2025 for the year ended December 31, 2025:

Employee Stock Purchase Plan - 2025

(Dollars in thousands except share and per share data)	**2025**
Shares purchased	**1,504**
Weighted average purchase price per share	**$ $34.56**
Compensation expense recognized	**$ 10**
Shares available for future issuance under the ESPP at December 31, 2025	248,496

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 incentive stock options (ISO) awarded under the Stock Plan and outstanding at December 31, 2025 are all exercisable. The ISO options expire 10 years from the grant date. The following table summarizes 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, 2023	70,454	$ 28.84	$ 191
Granted	—	—	
Exercised	(6,375)	22.05	
Forfeited	—	—	
Balance Outstanding at December 31, 2024	64,079	$ 29.51	$ 25
Granted	—	—	
Exercised	**(33,479)**	**27.32**	
Forfeited	—	—	
Balance Outstanding at December 31, 2025	**30,600**	**$ 31.90**	$ **560**

The following table provides information about the options outstanding at December 31, 2025:

Stock Option Plan	Options Outstanding and Exercisable	Weighted Exercise Price per share	Weighted Average Remaining Life (years)
Incentive Stock Options	1,500	21.27	0.2
Incentive Stock Options	11,700	30.00	1.2
Incentive Stock Options	17,400	34.10	2.2
ISO Total/Average	30,600	$ 31.90	1.7

The following table provides information about the restricted stock plan at December 31, 2025:

Restricted Shares	Restricted Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2023	18,507	$ 32.40
Granted	26,001	31.64
Vested	(16,652)	31.56
Forfeited	—	32.48
Nonvested as of December 31, 2024	27,856	$ 32.53
Granted	**20,748**	**38.01**
Vested	**(27,801)**	**31.81**
Forfeited	—	—
Nonvested as of December 31, 2025	**20,803**	**$ 33.11**
Shares available for future grants under the Stock Plan at December 31, 2025	206,792	

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 $819 thousand in 2025 and $634 in 2024. The amount of unrecognized compensation expense for restricted shares was $356 thousand at December 31, 2025.

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 229,823 and 283,610 treasury shares at cost at December 31, 2025 and 2024, respectively.

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

			Shares Repurchased	
Plan Date	Authorized	Expiration	2025	2024
1/16/2025	150,000 shares	12/31/2025	19,300	—

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 $1.2 million to capital during 2025. This total was comprised of $1.0 million from the reinvestment of quarterly dividends and $213 thousand of optional cash purchases. During 2025, 29,687 shares of common stock were purchased through the DRIP and 128,518 shares remain to be issued. In December 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	**2025**	2024
Commercial commitments to extend credit	**$ 300,228**	$ 328,806
Consumer commitments to extend credit (secured)	**153,183**	135,776
Consumer commitments to extend credit (unsecured)	**7,083**	5,352
	$ 460,494	$ 469,934
Standby letters of credit	**$ 29,880**	$ 28,815
ACL - Unfunded Commitments (1)	**$** 1,899	$ 2,030

(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.

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, 2025, 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, 2025 and 2024.

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 2025. 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.

Fair Value Measurements

The following table presents assets measured at fair value and the basis of measurement used for the periods presented:

(Dollars in Thousands)		Fair Value at December 31, 2025			
Asset Description	**Basis**	**Level 1**	**Level 2**	**Level 3**	**Total**
Available for sale:					
U.S. Treasury		**33,263**	**—**	—	**33,263**
Municipal		**—**	**137,839**	—	**137,839**
Corporate		**—**	**14,675**	—	**14,675**
Agency MBS & CMO		**—**	**129,860**	—	**129,860**
Non-Agency MBS & CMO		**—**	**111,668**	—	**111,668**
Asset-backed			**27,281**	—	**27,281**
Total available for sale securities	Recurring	**$ 33,263**	**$ 421,323**	$ —	**$ 454,586**
Collateral dependent loans (1)	Nonrecurring	**—**	**—**	**6,227**	**6,227**
Derivatives	Recurring	**—**	**124**	**—**	**124**

(Dollars in Thousands)		Fair Value at December 31, 2024			
Asset Description		Level 1	Level 2	Level 3	Total
Equity securities, at fair value	Recurring	$ 166	$ —	$ —	$ 166
Available for sale:					
U.S. Treasury		31,797	—	—	31,797
Municipal		—	133,592	—	133,592
Corporate		—	24,224	—	24,224
Agency MBS & CMO		—	138,742	—	138,742
Non-Agency MBS & CMO		—	149,170	—	149,170
Asset-backed			31,079		31,079
Total available for sale securities	Recurring	$ 31,963	$ 476,807	$ —	$ 508,770
Collateral dependent loans (1)	Nonrecurring	—	—	380	380
Derivatives	Recurring	—	2,275	—	2,275

(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, 2025 and 2024. 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, 2025 and 2024.

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, 2025 and 2024.

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

December 31, 2025	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Collateral Dependent	$ 6,227	Appraisal	Appraisal Adjustment on	
			Real estate assets	20%
			Cost to sell	10%
Collateral Dependent (1)	$ -	Appraisal	Business assets	100%
			Cost to sell	0%

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) This loan has a carrying value of $290 thousand and a specific reserve of $290 thousand.

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

	December 31, 2025				
(Dollars in thousands)	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets, carried at cost:					
Cash and cash equivalents	**$ 127,721**	**$ 127,721**	**$ 127,721**	**$ —**	**$ —**
Long-term interest-earnings deposits in other banks	**999**	**999**	**999**		
Loans held for sale	**18,929**	**19,161**	**—**	**19,161**	**—**
Net loans	**1,540,583**	**1,537,281**	**—**	**—**	**1,537,281**
Accrued interest receivable	**8,084**	**8,084**	**—**	**—**	**8,084**
Financial liabilities:					
Deposits	**$ 1,835,772**	**$ 1,835,884**	**$ —**	**$ 1,835,884**	**$ —**
FHLB Advances	**200,000**	**201,732**		**201,732**	
Subordinate notes	**10,845**	**9,532**	**—**	**9,532**	**—**
Accrued interest payable	**3,852**	**3,852**	**—**	**3,852**	**—**

	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	—

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

Balance Sheets

(Dollars in thousands)	December 31 **2025**	2024
Assets:		
Cash and cash equivalents	**$ 173**	$ 9,137
Investment securities	**—**	166
Equity investment in subsidiaries	**184,590**	153,410
Other assets	**1,400**	1,704
Total assets	**$ 186,163**	164,417
Liabilities:		
Subordinate notes	**$ 10,845**	$ 19,699
Other liabilities	**76**	2
Total liabilities	**10,921**	19,701
Shareholders' equity	**175,242**	144,716
Total liabilities and shareholders' equity	**$ 186,163**	$ 164,417

Statements of Income

(Dollars in thousands)	Years Ended December 31 **2025**	2024
Income:		
Dividends from Bank subsidiary	**$ 7,350**	$ 5,956
Change in fair value of equity securities	**(7)**	209
Dividends	**—**	7
	7,343	6,172
Expenses:		
Interest expense	**1,281**	1,050
Operating expenses	**2,261**	1,932
Income before income taxes and equity in undistributed income of subsidiaries	**3,801**	3,190
Income tax benefit	**817**	568
Equity in undistributed income of subsidiaries	**16,608**	7,341
Net income	**21,226**	11,099
Other comprehensive income/(loss) of subsidiary	**13,919**	5,432
Comprehensive income (loss)	**$ 35,145**	$ 16,531

Statements of Cash Flows

(Dollars in thousands)	Years Ended December 31 **2025**	2024
Cash flows from operating activities		
Net income	**$ 21,226**	$ 11,099
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed (income) of subsidiary	**(16,608)**	(7,341)
Stock option compensation	**819**	634
Change in fair value of equity security	**7**	(209)
Increase in other assets/liabilities	**30**	(531)
Net cash provided by operating activities	**5,474**	3,652
Cash flows from financing activities		
Dividends paid	**(5,845)**	(5,629)
Redemption of subordinate notes	**(9,000)**	—
Cash received from option exercises	**286**	122
Common stock issued under dividend reinvestment plan	**1,225**	1,749
Treasury stock purchase	**(1,104)**	(827)
Net cash (used in) provided by financing activities	**(14,438)**	(4,585)
(Decrease) increase in cash and cash equivalents	**(8,964)**	(933)
Cash and cash equivalents as of January 1	**9,137**	10,070
Cash and cash equivalents as of December 31	**$ 173**	$ 9,137

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, 2025 and 2024:

(Dollars in thousands)	For the Twelve Months Ended December 31,
Wealth Management Fees	**2025** 2024
Asset Management Fees	**$ 8,420** $ 7,760
Estate Management Fees	**458** 508
Commissions	**291** 270
Total	**$ 9,169** $ 8,538

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.

Community Banking Segment. Pretax profit or loss is used to assess the performance of this 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.

Wealth Management Segment. Pretax profit or loss is used to assess the performance of the this 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.

(Dollars in thousands)	Year Ended December 31, 2025			Year Ended December 31, 2024		
	Reportable Segments			Reportable Segments		
	Wealth	Community Banking	Consolidated Total	Wealth	Community Banking	Consolidated Total
Interest income - loans, including fees	$ —	$ 87,226	$ 87,226	$ —	$ 73,996	$ 73,996
Interest income - investments	—	19,504	19,504	—	18,211	18,218
Interest income - interest-earning deposits in other banks	—	7,641	7,641	—	9,237	9,237
Wealth fee income	9,169	—	9,169	8,538	—	8,538
Total segment income	$ 9,169	$ 114,371	$ 123,540	$ 8,538	$ 101,444	$ 109,989
Reconciliation of revenue						
Other revenue - not allocated to a segment			10,007			5,141
Total consolidated revenue			$ 133,547			$ 115,130
Less:						
Interest expense - deposits	$ —	$ 34,694	$ 34,694	$ —	$ 30,906	$ 30,906
Interest expense - other borrowings	—	8,750	10,031	—	11,981	13,031
Provision for credit losses	—	2,899	2,899	—	1,983	1,983
Salary and benefit expense	4,018	31,311	35,329	3,829	28,923	32,752
Segment profit	$ 5,151	$ 36,717	$ 50,594	$ 4,709	$ 27,651	$ 36,458
Other expenses - not allocated to a segment			24,327			23,143
Income before taxes			$ 26,267			$ 13,315
Other segment disclosures						
Net occupancy	$ 482	$ 4,300	$ 4,782	$ 524	$ 4,059	$ 4,583
Data processing	$ 185	$ 5,932	$ 6,117	$ 198	$ 5,606	$ 5,804
Total assets for reportable segments	$ 1,413	$ 2,236,154	$ 2,239,018	$ 1,555	$ 2,194,365	$ 2,197,841

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, 2025, the balance of these investments was ($312) thousand. The Corporation has no unfunded commitments to these projects.

During the years ended December 31, 2025 and 2024, the Corporation recognized other income, net of amortization of $356 thousand and $447 thousand, respectively, reported in Other Noninterest Income on the consolidated statements of income. Additionally, the Corporation recognized $19 thousand in federal income tax credits for 2025 and $122 thousand for 2024. 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, 2025, 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, 2025, 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, 2025, the Corporation's internal control over financial reporting is effective based on those criteria.

Crowe LLP, the independent registered public accounting firm that audited the Corporation's consolidated financial statements included in this Annual Report on Form 10-K, has issued an audit report on the Corporation's internal control over financial reporting as of December 31, 2025, which is included herein.

There were no changes during the fourth quarter of 2025 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, 2025, 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 2026 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 2026 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 2026 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 – 2025 Director Compensation" appearing in the Corporation's 2026 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 2026 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 2026 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 2026 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 2026 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 2026 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 99.2 of Current Report on Form 8-K as filed with the Commission on January 20, 2026 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.)*
10.9	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 as Exhibit 19 to Annual Report on form 10-K for the year ended December 31, 2024 and incorporated herein by reference)
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/ Craig W. Best
Craig W. Best
Chief Executive Officer

Dated: March 13, 2026

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 13, 2026
/s/ Craig W. Best Craig W. Best	Chief Executive Officer, President and Director (Principal Executive Officer)	March 13, 2026
/s/ Mark R. Hollar Mark R. Hollar	Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	March 13, 2026
/s/ Martin R. Brown Martin R. Brown	Director	March 13, 2026
/s/ Kevin W. Craig Kevin W. Craig	Director	March 13, 2026
/s/ Gregory A. Duffey Gregory A. Duffey	Director	March 13, 2026
/s/ Daniel J. Fisher Daniel J. Fisher	Director	March 13, 2026
/s/ Stanley J. Kerlin Stanley J. Kerlin	Director	March 13, 2026
/s/ Donald H. Mowery Donald H. Mowery	Director	March 13, 2026
/s/ Kimberly M. Rzomp Kimberly M. Rzomp	Director	March 13, 2026
/s/ Gregory I. Snook Gregory I. Snook	Director	March 13, 2026