UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2026

or

☐ 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)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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 period 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, a 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 is a shell company (as defined in Rule 12b-2 of the Act) Yes ☐ No ☒

There were 4,499,582 outstanding shares of the Registrant's common stock as of July 31, 2026.

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)	*(unaudited)* **June 30, 2026**	December 31, 2025
Assets		
Cash and due from banks	**$ 25,560**	$ 22,446
Short-term interest-earning deposits in other banks	**169,471**	105,275
Total cash and cash equivalents	**195,031**	127,721
Long-term interest-earning deposits in other banks	**750**	999
Debt securities available for sale, at fair value	**452,345**	454,586
Restricted stock	**8,985**	8,897
Loans held for sale	**2,797**	18,929
Loans	**1,610,619**	1,561,238
Allowance for credit losses	**(21,864)**	(20,655)
Net Loans	**1,588,755**	1,540,583
Premises and equipment, net	**26,262**	27,138
Right of use asset	**4,048**	3,657
Bank owned life insurance	**22,519**	23,207
Goodwill	**9,016**	9,016
Deferred tax asset, net	**8,379**	7,881
Other assets	**16,294**	16,404
Total assets	**$ 2,335,181**	$ 2,239,018
Liabilities		
Deposits		
Noninterest-bearing checking	**$ 341,103**	$ 310,251
Money management, savings, and interest checking	**1,354,833**	1,301,198
Time	**228,652**	224,323
Total deposits	**1,924,588**	1,835,772
Federal Home Loan Bank advances	**200,000**	200,000
Subordinate notes	**10,855**	10,845
Lease liability	**4,251**	3,840
Other liabilities	**11,642**	13,319
Total liabilities	**2,151,336**	2,063,776
Commitments and contingent liabilities (see Note 16)		
Shareholders' equity		
Common stock, $1 par value per share,15,000,000 shares authorized with 4,710,972 shares issued and 4,493,715 shares outstanding at June 30, 2026 and 4,710,972 shares issued and 4,481,149 shares outstanding at December 31, 2025	**4,711**	4,711
Capital stock no par value, 5,000,000 shares authorized with no shares issued and outstanding	**—**	—
Additional paid-in capital	**44,135**	43,932
Retained earnings	**165,085**	154,844
Accumulated other comprehensive loss	**(23,458)**	(21,589)
Treasury stock, 217,257 shares at June 30, 2026 and 229,823 shares at December 31, 2025, at cost	**(6,628)**	(6,656)
Total shareholders' equity	**183,845**	175,242
Total liabilities and shareholders' equity	**$ 2,335,181**	$ 2,239,018

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

Consolidated Statements of Income

(Dollars in thousands, except per share data) (unaudited)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2026	2025	**2026**	2025
Interest income				
Loans, including fees	**$ 23,159**	$ 21,425	**$ 45,727**	$ 41,289
Interest and dividends on investments:				
Taxable interest	**3,480**	4,524	**7,096**	9,349
Tax exempt interest	**265**	269	**530**	540
Dividend income	**201**	189	**404**	379
Interest-earning deposits in other banks	**1,826**	2,193	**2,944**	4,101
Total interest income	**28,931**	28,600	**56,701**	55,658
Interest expense				
Deposits	**7,202**	8,918	**14,089**	17,948
FHLB overnight borrowings and advances	**2,181**	2,181	**4,339**	4,339
Subordinate notes	**201**	263	**406**	528
Total interest expense	**9,584**	11,362	**18,834**	22,815
Net interest income	**19,347**	17,238	**37,867**	32,843
Provision for credit losses - loans	**1,600**	704	**1,802**	1,454
Provision for (reversal of) credit losses - unfunded commitments	**39**	(69)	**58**	(40)
Total provision for credit losses	**1,639**	635	**1,860**	1,414
Net interest income after credit loss expense	**17,708**	16,603	**36,007**	31,429
Noninterest income				
Wealth management fees	**2,567**	2,419	**4,873**	4,633
Loan service charges	**289**	294	**527**	503
Gain on sale of loans	**227**	132	**545**	241
Deposit service charges and fees	**694**	613	**1,341**	1,218
Other service charges and fees	**521**	480	**1,002**	963
Debit card income	**632**	608	**1,251**	1,167
Increase in cash surrender value of life insurance	**135**	116	**267**	230
Change in fair value of equity securities	**—**	—	**—**	(7)
Other	**84**	441	**703**	716
Total noninterest income	**5,149**	5,103	**10,509**	9,664
Noninterest Expense				
Salaries	**6,453**	6,210	**12,690**	12,386
Employee benefits	**2,162**	2,654	**4,949**	4,984
Net occupancy	**1,178**	1,146	**2,419**	2,371
Marketing and advertising	**362**	353	**788**	786
Legal and professional	**556**	537	**1,251**	1,064
Data processing	**1,578**	1,514	**3,119**	3,071
Pennsylvania bank shares tax	**236**	137	**490**	297
FDIC Insurance	**367**	409	**850**	954
ATM/debit card processing	**383**	344	**760**	683
Telecommunications	**128**	109	**262**	216
Other	**1,206**	976	**2,382**	2,153
Total noninterest expense	**14,609**	14,389	**29,960**	28,965
Income before income taxes	**8,248**	7,317	**16,556**	12,128
Income tax expense	**1,637**	1,409	**3,308**	2,299
Net income	**$ 6,611**	$ 5,908	**$ 13,248**	$ 9,829
Per share				
Basic earnings per share	**$ 1.47**	$ 1.32	**$ 2.95**	$ 2.21
Diluted earnings per share	**$ 1.47**	$ 1.32	**$ 2.94**	$ 2.20

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

Consolidated Statements of Comprehensive Income (Loss)

(Dollars in thousands) (unaudited)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2026	2025	**2026**	2025
Net Income	**$ 6,611**	$ 5,908	**$ 13,248**	$ 9,829
Debt Securities:				
Unrealized gains (losses) arising during the period	**(245)**	1,971	**(2,265)**	8,494
Reclassification adjustment for gains (losses) realized in income on fair value hedge (1)	**—**	(614)	**(101)**	(2,514)
Net unrealized gain (loss)	**(245)**	1,357	**(2,366)**	5,980
Tax effect	**52**	(285)	**497**	(1,256)
Net of tax amount	**(193)**	1,072	**(1,869)**	4,724
Total Comprehensive Income (Loss)	**$ 6,418**	$ 6,980	**$ 11,379**	$ 14,553

(1) Reclassified to interest income

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

Consolidated Statements of Changes in Shareholders' Equity
For the three and six months ended June 30, 2026 and 2025

(Dollars in thousands, except per share data) (unaudited)	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at April 1, 2026	**4,493,002**	**$ 4,711**	**43,776**	**$ 160,001**	**$ (23,265)**	**$ (6,479)**	**$ 178,744**
Net income		**—**	**—**	**6,611**	**—**	**—**	**6,611**
Other comprehensive loss		**—**	**—**	**—**	**(193)**	**—**	**(193)**
Cash dividends declared, $0.34 per share		**—**	**—**	**(1,527)**	**—**	**—**	**(1,527)**
Acquisition of treasury stock	**(5,950)**	**—**	**—**	**—**	**—**	**(350)**	**(350)**
Treasury shares issued under dividend reinvestment plan	**4,520**	**—**	**131**	**—**	**—**	**136**	**267**
Stock Compensation Plans:							
Treasury shares issued	**2,143**	**—**	**10**	**—**	**—**	**65**	**75**
Compensation expense		**—**	**218**	**—**	**—**	**—**	**218**
Balance at June 30, 2026	**4,493,715**	**$ 4,711**	**$ 44,135**	**$ 165,085**	**$ (23,458)**	**$ (6,628)**	**$ 183,845**
Balance at January 1, 2026	**4,481,149**	**$ 4,711**	**$ 43,932**	**$ 154,844**	**$ (21,589)**	**$ (6,656)**	**$ 175,242**
Net income		**—**	**—**	**13,248**	**—**	**—**	**13,248**
Other comprehensive loss		**—**	**—**	**—**	**(1,869)**	**—**	**(1,869)**
Cash dividends declared, $0.67 per share		**—**	**—**	**(3,007)**	**—**	**—**	**(3,007)**
Acquisition of treasury stock	**(15,703)**	**—**	**52**	**—**	**—**	**(807)**	**(755)**
Treasury shares issued under dividend reinvestment plan	**9,584**	**—**	**246**	**—**	**—**	**284**	**530**
Stock Compensation Plans:							
Treasury shares issued	**18,685**	**—**	**(469)**	**—**	**—**	**551**	**82**
Compensation expense		**—**	**374**	**—**	**—**	**—**	**374**
Balance at June 30, 2026	**4,493,715**	**$ 4,711**	**$ 44,135**	**$ 165,085**	**$ (23,458)**	**$ (6,628)**	**$ 183,845**
Balance at April 1, 2025	4,454,382	$ 4,711	$ 43,607	$ 141,967	$ (31,856)	$ (7,038)	$ 151,391
Net income		—	—	5,908	—	—	5,908
Other comprehensive gain		—	—	—	1,072	—	1,072
Cash dividends declared, $0.33 per share		—	—	(1,472)	—	—	(1,472)
Acquisition of treasury stock	(8,345)	—	—	—	—	(296)	(296)
Treasury shares issued under dividend reinvestment plan	7,039	—	75	—	—	195	270
Stock Compensation Plans:							
Treasury shares issued	14,928	—	(200)	—	—	410	210
Compensation expense		—	281	—	—	—	281
Balance at June 30, 2025	4,468,004	$ 4,711	$ 43,763	$ 146,403	$ (30,784)	$ (6,729)	$ 157,364
Balance at January 1, 2025	4,427,362	$ 4,711	$ 43,791	$ 139,463	$ (35,508)	$ (7,741)	$ 144,716
Net income		—	—	9,829	—	—	9,829
Other comprehensive gain		—	—	—	4,724	—	4,724
Cash dividends declared, $0.65 per share		—	—	(2,889)	—	—	(2,889)
Acquisition of treasury stock	(12,267)	—	—	—	—	(438)	(438)
Treasury shares issued under dividend reinvestment plan	19,391	—	182	—	—	532	714
Stock Compensation Plans:							
Treasury shares issued	33,518	—	(685)	—	—	918	233
Compensation expense		—	475	—	—	—	475
Balance at June 30, 2025	4,468,004	$ 4,711	$ 43,763	$ 146,403	$ (30,784)	$ (6,729)	$ 157,364

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

Consolidated Statements of Cash Flows

(Dollars in thousands) (unaudited)	Six Months Ended June 30, 2026	2025
Cash flows from operating activities		
Net income	**$ 13,248**	$ 9,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**1,029**	1,071
Net amortization of loans and investment securities	**336**	166
Amortization of subordinate debt issuance costs	**10**	20
Provision for credit losses	**1,860**	1,414
Loss on sale of equity securities	**—**	7
Loans originated for sale	**(25,533)**	(15,917)
Proceeds from sale of loans	**42,210**	17,142
Gain on sale of loans held for sale	**(545)**	(241)
Gain on sale of premise	**(33)**	—
Increase in cash surrender value of life insurance	**(267)**	(230)
Gain from claims on life insurance policies	**(351)**	—
Stock based compensation	**374**	475
Net decrease in other assets	**118**	1,620
Net decrease in other liabilities	**(1,672)**	(1,396)
Net cash provided by operating activities	**30,784**	13,960
Cash flows from investing activities		
Net decrease in long-term interest-earning deposits in other banks	**249**	500
Proceeds from maturities, calls and pay-downs of securities available for sale	**33,031**	35,818
Purchase of investment securities available for sale	**(33,228)**	—
Increase in restricted stock	**(88)**	(119)
Net increase in loans	**(50,423)**	(121,154)
Proceeds from surrender of life insurance policies	**1,306**	—
Proceeds from sale of equity securities	**—**	161
Proceeds from sale of premises	**830**	—
Capital expenditures	**(818)**	(433)
Net cash used in investing activities	**(49,141)**	(85,227)
Cash flows from financing activities		
Net increase in demand deposits, interest-bearing checking, and savings accounts	**84,487**	73,894
Net increase in time deposits	**4,329**	3,930
Dividends paid	**(3,007)**	(2,889)
Purchase of Treasury shares	**(755)**	(438)
Cash received from option exercises	**82**	233
Treasury shares issued under dividend reinvestment plan	**530**	714
Net cash provided by financing activities	**85,666**	75,444
Increase in cash and cash equivalents	**67,310**	4,177
Cash and cash equivalents at the beginning of the period	**127,721**	203,613
Cash and cash equivalents at the end of the period	**$ 195,031**	$ 207,790
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest on deposits and other borrowed funds	**$ 19,063**	$ 23,065
Income taxes	**3,108**	2,123
Noncash Activities		
Lease liabilities arising from obtaining right-of-use assets	**692**	131

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

Note 1. Basis of Presentation

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 (the Bank) and Franklin Future Fund Inc. Farmers and Merchants Trust Company of Chambersburg is a commercial bank that has one wholly owned subsidiary, Franklin Financial Properties Corp. Franklin Financial Properties Corp. holds real estate assets that are leased by the Bank. Franklin Future Fund Inc. is a non-bank investment company. The activities of the non-bank subsidiary are not significant to the consolidated totals. All significant intercompany transactions and account balances have been eliminated.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the consolidated financial position, results of operations, and cash flows as of June 30, 2026, and for all other periods presented have been made.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's 2025 Annual Report on Form 10-K. The consolidated results of operations for the three and six months ended June 30, 2026 are not necessarily indicative of the operating results for the full year. Management has evaluated subsequent events for potential recognition and/or disclosure through the date these consolidated financial statements were issued.

The consolidated balance sheet at December 31, 2025 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete consolidated financial statements.

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.

Earnings per share are computed based on the weighted average number of shares outstanding during each period end. A reconciliation of the weighted average shares outstanding used to calculate basic earnings per share and diluted earnings per share follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Dollars and shares in thousands, except per share data)	**2026**	2025	**2026**	2025
Weighted average shares outstanding (basic)	**4,493**	4,461	**4,489**	4,449
Impact of common stock equivalents	**10**	10	**11**	13
Weighted average shares outstanding (diluted)	**4,503**	4,471	**4,500**	4,462
Anti-dilutive options excluded from calculation	**—**	—	**—**	—
Net income	**$ 6,611**	$ 5,908	**$ 13,248**	$ 9,829
Basic earnings per share	**$ 1.47**	$ 1.32	**$ 2.95**	$ 2.21
Diluted earnings per share	**$ 1.47**	$ 1.32	**$ 2.94**	$ 2.20

Note 2. Recent Accounting Pronouncements

Recently adopted accounting standards

ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures		
Description		This ASU is intended to improve the transparency of income tax disclosures by requiring consistent categories and greater disaggregation of information in the rate reconciliation table and income taxes paid to be disaggregated by jurisdiction. It also includes certain amendments to improve the effectiveness of income tax disclosures.
Effective Date		Effective for annual periods beginning after December 15, 2024.
Effect on the Consolidated Financial Statements		The Corporation adopted the ASU retrospectively in 2025. 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 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 3. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), net of income tax effects, included in shareholders' equity, are as follows:

(Dollars in thousands)	**June 30, 2026**	December 31, 2025
Net unrealized (losses) gains on debt securities	**$** (29,083)	$ (26,717)
Tax effect	6,108	5,611
Net of tax amount	**$** (22,975)	$ (21,106)
Accumulated pension adjustment	**$** (611)	$ (611)
Tax effect	128	128
Net of tax amount	**$** (483)	$ (483)
Total accumulated other comprehensive (loss) income	**$** (23,458)	$ (21,589)

Note 4. Investments

Available for Sale (AFS) Securities

The amortized cost and estimated fair value of AFS securities as of June 30, 2026 and December 31, 2025 are as follows:

(Dollars in thousands) June 30, 2026	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair Value
U.S. Treasury	**$ 65,781**	$ —	$ **(2,829)**	$ **62,952**
Municipal	**153,681**	—	**(16,765)**	**136,916**
Corporate	**8,479**	—	**(587)**	**7,892**
Agency MBS & CMO	**131,882**	**91**	**(6,448)**	**125,525**
Non-Agency MBS & CMO	**96,088**	**147**	**(2,444)**	**93,791**
Asset-backed	**25,517**	**89**	**(337)**	**25,269**
Total	**$ 481,428**	**$ 327**	**$ (29,410)**	**$ 452,345**

(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

At June 30, 2026 and December 31, 2025, the fair value of debt securities pledged to secure public deposits, trust deposits, FHLB borrowing commitments and Federal Reserve Bank discount window availability totaled $368.3 million and $353.5 million, respectively. The Bank has no investment in a single obligor that exceeds 10% of shareholders' equity, except for securities issued by the U.S. Treasury and U.S. government sponsored entities.

The amortized cost and estimated fair value of debt securities at June 30, 2026, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because of prepayment or call options embedded in the securities. Securities not due at a single maturity date are presented separately.

(Dollars in thousands)	Amortized cost	Fair value
Due in one year or less	$ 31,053	$ 31,013
Due after one year through five years	62,463	58,114
Due after five years through ten years	81,022	70,761
Due after ten years	53,403	47,872
	227,941	207,760
MBS, CMO & ABS	253,487	244,585
Total	$ 481,428	$ 452,345

Credit Impairment:

The debt securities portfolio contained 453 securities in an unrealized loss position having a fair value of $409.4 million, with $29.4 million in unrealized losses at June 30, 2026, an increase of $1.9 million from the prior year-end.

AFS securities in an unrealized loss position are evaluated for credit impairment at least quarterly. For these securities, 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 unrealized losses identified on debt securities and subject to evaluation at June 30, 2026 and December 31, 2025, were determined not to be attributable to credit related factors; therefore, the Bank does not have an allowance for credit loss for these investments.

The following table summarizes debt securities in the AFS portfolio in an unrealized loss position for which an allowance for credit losses has not been recorded, aggregated by investment category, length of time that individual securities have been in continuous unrealized loss position and the number of securities in each category as of June 30, 2026 and December 31, 2025:

	June 30, 2026								
	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	$ 30,019	$ (39)	1	$ 32,933	$ (2,790)	13	$ 62,952	$ (2,829)	14
Municipal	882	(122)	2	136,034	(16,643)	164	136,916	(16,765)	166
Corporate	994	(1)	1	6,898	(586)	16	7,892	(587)	17
Agency MBS & CMO	36,401	(841)	21	76,550	(5,607)	154	112,951	(6,448)	175
Non-Agency MBS & CMO	50,701	(1,118)	15	21,574	(1,326)	30	72,275	(2,444)	45
Asset-backed	2,896	(8)	5	13,522	(329)	31	16,418	(337)	36
Total unrealized losses	$ 121,893	$ (2,129)	45	$ 287,511	$ (27,281)	408	$ 409,404	$ (29,410)	453

	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

Note 5. Loans

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

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

Residential Real Estate 1-4 family

The largest risk in residential real estate loans to retail customers is the borrower's inability to repay the loan due to the loss of the primary source of income. The Bank attempts to mitigate this risk through prudent underwriting standards including employment history, current financial condition and credit history. These loans are generally owner occupied and serve as the borrower's primary residence. The Bank usually holds a first lien position on these properties but may hold a second lien position in some home equity loans or lines of credit. Commercial purpose loans, secured by residential real

estate, are usually dependent upon repayment from the rental income or other business purposes. These loans are generally non-owner occupied. In addition to the real estate collateral, these loans may have personal guarantees or UCC filings on other business assets. If a payment default occurs on a 1-4 family residential real estate loan, the collateral serves as a source of repayment but may be subject to a change in value due to economic conditions.

Residential Real Estate Construction

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

Loans to contractors 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 American Institute of Architects (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 include general obligation notes, indicating that the loan is secured by the "full faith and credit" of the municipal government thereby pledging its taxing authority, and revenue backed loans to a municipal authority secured by revenue from a specific source. These loans generally present less risk than other commercial loans.

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 history. 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 outstanding loans, by class, at the end of the reporting periods is as follows:

(Dollars in thousands)	**June 30, 2026**	December 31, 2025
Residential real estate 1-4 family		
Consumer first liens	**$ 233,681**	$ 213,440
Commercial first lien	**62,714**	63,457
Total first liens	**296,395**	276,897
Consumer junior liens and lines of credit	**89,192**	84,650
Commercial junior liens and lines of credit	**7,475**	6,839
Total junior liens and lines of credit	**96,667**	91,489
Total residential real estate 1-4 family	**393,062**	368,386
Residential real estate - construction		
Consumer	**38,422**	29,609
Commercial	**15,656**	24,516
Total residential real estate construction	**54,078**	54,125
Commercial real estate	**949,366**	903,571
Commercial	**205,879**	225,499
Total commercial	**1,155,245**	1,129,070
Consumer	**8,234**	9,657
	1,610,619	1,561,238
Less: Allowance for credit losses	**(21,864)**	(20,655)
Net Loans	**$ 1,588,755**	$ 1,540,583
Included in the loan balances are the following:		
Net unamortized deferred loan costs	**$ 2,013**	$ 1,766
Loans pledged as collateral for borrowings and commitments from:		
FHLB	**$ 886,497**	$ 863,693
Federal Reserve Bank	**100,627**	193,640
	$ 987,124	$ 1,057,333

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): Loans are considered pass credits with lower or average risk and are not otherwise classified.

Other Assets Especially Mentioned (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.

Loss (9): Loans classified as Loss are considered uncollectable and the loan will be charged-off in the period it is deemed uncollectable. There were no loans in this category.

Loans that do not share risk characteristics with pooled loans are evaluated on an individual basis. Loans evaluated individually are not included in the pool evaluation, this includes collateral dependent loans. Loans are considered Collateral Dependent 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 or 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.

The Bank previously reported loans of $4.2 million (classified as Substandard, rated 7) to a related party of a Bank Director who was considered an “insider” under Regulation O. During the second quarter of 2026, there was a change in reporting status for this Director, as it relates to the borrower, and as of June 30, 2026, this loan is not considered a related party loan.

The following table presents loans by year of origination and internally assigned risk ratings:

(Dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized	Revolving Loans Converted	
As of June 30, 2026	**2026**	2025	2024	2023	2022	Prior	Cost Basis	to Term	Total
Residential real estate 1-4 family:									
Commercial:									
Risk rating:									
Pass (1-5)	$ 5,883	$ 6,424	$ 4,552	$ 13,806	$ 5,984	$ 26,878	$ 6,342	$ —	$ 69,869
OAEM (6)	—	—	—	—	—	—	95	—	95
Substandard (7)	—	—	—	—	—	225	—	—	225
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total Commercial	5,883	6,424	4,552	13,806	5,984	27,103	6,437	—	70,189
Consumer:									
Performing	20,392	45,182	43,310	56,060	26,714	42,066	73,349	15,781	322,854
Nonperforming	—	—	—	—	—	—	19	—	19
Total Consumer	20,392	45,182	43,310	56,060	26,714	42,066	73,368	15,781	322,873
Total	$ 26,275	$ 51,606	$ 47,862	$ 69,866	$ 32,698	$ 69,169	$ 79,805	$ 15,781	$ 393,062
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate construction:									
Commercial:									
Risk rating:									
Pass (1-5)	$ 2,772	$ 3,237	$ 5,132	$ 907	$ 253	$ 2,036	$ 1,319	$ —	$ 15,656
OAEM (6)	—	—	—	—	—	—	—	—	—
Substandard (7)	—	—	—	—	—	—	—	—	—
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total Commercial	2,772	3,237	5,132	907	253	2,036	1,319	—	15,656
Consumer:									
Performing	7,459	25,460	5,503	—	—	—	—	—	38,422
Nonperforming	—	—	—	—	—	—	—	—	—
Total Consumer	7,459	25,460	5,503	—	—	—	—	—	38,422
Total	$ 10,231	$ 28,697	$ 10,635	$ 907	$ 253	$ 2,036	$ 1,319	$ —	$ 54,078
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate:									
Risk rating:									
Pass (1-5)	$ 57,170	$ 133,971	141,092	203,310	$ 92,414	$ 260,368	$ 15,667	$ —	$ 903,992
OAEM (6)	—	—	—	12,376	914	6,676	15	—	19,981
Substandard (7)	1,603	—	—	21,875	221	1,694	—	—	25,393
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total	$ 58,773	$ 133,971	$ 141,092	$ 237,561	$ 93,549	$ 268,738	$ 15,682	$ —	$ 949,366
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial:									
Risk rating:									
Pass (1-5)	$ 9,213	$ 13,656	$ 20,461	$ 8,422	$ 17,273	$ 93,488	$ 37,490	$ —	$ 200,003
OAEM (6)	—	—	—	7	328	1,234	198	—	1,767
Substandard (7)	—	—	381	—	389	—	3,339	—	4,109
Doubtful (8)	—	—	—	—	—	—	—	—	—
Total	$ 9,213	$ 13,656	$ 20,842	$ 8,429	$ 17,990	$ 94,722	$ 41,027	$ —	$ 205,879
Current period gross charge-offs	$ (2)	$ —	$ (55)	$ —	$ (209)	$ —	$ (645)	$ —	$ (911)
Consumer:									
Performing	980	1,256	858	521	94	1,435	3,085	—	8,229
Nonperforming	—	—	—	—	—	—	5	—	5
Total	$ 980	$ 1,256	$ 858	$ 521	$ 94	$ 1,435	$ 3,090	$ —	$ 8,234
Current period gross charge-offs	$ (29)	$ —	$ —	$ (5)	$ —	$ (3)	$ (26)	$ —	$ (63)

(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 the amortized cost basis of loans on nonaccrual status and loans past due 90 days or more and still accruing as of the date presented:

(Dollars in thousands)	June 30, 2026 Nonaccrual and Loans past due 90 Days or more			December 31, 2025 Nonaccrual and Loans past due 90 Days or more		
	Nonaccrual Without ACL	Nonaccrual With ACL	Loans past due 90 Days or more Still Accruing	Nonaccrual Without ACL	Nonaccrual With ACL	Loans past due 90 Days or more Still Accruing
June 30, 2026						
Residential Real Estate 1-4 Family						
First liens	$ 51	$ —	$ —	$ —	$ —	$ —
Junior liens and lines of credit	19	—	—	20	—	—
Total	70	—	—	20	—	—
Residential real estate - construction	—	—	—	—	—	—
Commercial real estate	221	17,387	—	1,029	7,119	—
Commercial	49	—	—	55	290	—
Consumer	—	—	5	—	—	5
Total	$ 340	$ 17,387	$ 5	$ 1,104	$ 7,409	$ 5

The following table presents the aging of payments of the loan portfolio:

(Dollars in thousands)	Loans Past Due			Total		Total
	30-59 Days	60-89 Days	90 Days+	Past Due	Current	Loans
June 30, 2026						
Residential Real Estate 1-4 Family						
First liens	$ 158	$ 597	$ 51	$ 806	$ 295,589	$ 296,395
Junior liens and lines of credit	238	160	—	398	96,269	96,667
Total	396	757	51	1,204	391,858	393,062
Residential real estate - construction	—	—	—	—	54,078	54,078
Commercial real estate	284	—	7,027	7,311	942,055	949,366
Commercial	126	—	49	175	205,704	205,879
Consumer	31	28	5	64	8,170	8,234
Total	$ 837	$ 785	$ 7,132	$ 8,754	$ 1,601,865	$ 1,610,619

	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

At June 30, 2026, the Bank had $17.4 million of loans considered to be collateral dependent. These loans are comprised of a commercial real estate construction loan totaling $8.6 million for a mixed-use project with a specific reserve of $1.2 million and a commercial real estate loan totaling $8.8 million secured by six commercial office buildings with a specific reserve of $734 thousand, to unrelated borrowers. At December 31, 2025, collateral dependent loans totaled $7.1 million for a commercial real estate construction loan for a mixed-use project with a specific reserve of $892 thousand. At June 30,

2025, the Bank had two commercial relationships for $10.3 million that were considered to be collateral dependent and there was no specific reserve for these loans.

At June 30, 2026 and December 31, 2025, the Bank had $0 of residential properties in the process of foreclosure.

The Bank may modify loans to borrowers experiencing financial difficulty (BEFD) by providing modifications such as principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit loss. The Bank may also provide multiple types of concessions on one loan.

During the second quarter of 2026, the Bank provided modifications to two unrelated BEFD. One $7.0 million CRE loan was modified with a term extension that had a more-than-significant payment delay. As of June 30, 2026, this loan had matured and repayment has been delayed under the terms of a forbearance agreement. As part of the forbearance agreement, the Bank has committed to lend $2.5 million to the borrower and had advanced $1.6 million as of June 30, 2026, for a total of $8.6 million outstanding to this BEFD as of June 30, 2026. The payment terms of the new loan are also covered by the terms of the forbearance agreement. This loan is on nonaccrual status as of June 30, 2026, and a $1.2 million specific reserve has been established for this loan. The second loan modification was for an $8.8 million CRE loan that was granted interest only payments until the third quarter of 2026 when it is scheduled to return to full principal and interest payments. The Bank has no commitment to lend additional amounts to this borrower. As of June 30, 2026, this loan was on nonaccrual and had a specific reserve of $734 thousand.

The following table presents the amortized cost basis of loans at June 30, 2026 that were both experiencing financial difficulty and modified during the three months ended June 30, 2026, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers experiencing financial difficulty as compared to the amortized cost basis of each class of financing receivable is also presented below. There were no loans modified during the first quarter of 2026; therefore, the loans modified for the six months ended June 30, 2026 equals those modified during the second quarter of 2026. There were no loans modified during the three and six month periods ended June 30, 2025.

(Dollars in thousands)	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Principal Forgiveness	Combination Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
June 30, 2026							
Commercial real estate	$ —	$ 15,786	$ —	$ —	$ —	$ —	1.66%

The Bank closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months:

(Dollars in thousands)		Loans Past Due			Total
	Current	30-59 Days	60-89 Days	90 Days+	Past Due
June 30, 2026					
Commercial real estate	$ 8,759	$ —	$ —	$ 7,027	$ 7,027

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the three months ended June 30, 2026:

(Dollars in thousands)	Principal Forgiveness	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension
June 30, 2026			
Commercial real estate	—	0.00%	0.5 years

As of December 31, 2025 there were no modifications made to borrowers experiencing financial difficulty that had a payment default and were modified in the twelve months prior to that default. Default is determined at 90 or more days past due, upon charge-off, or upon foreclosure.

The following table presents, by class, the activity in the Allowance for Credit Losses (ACL) for the periods shown:

	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 March 31, 2026	**$ 1,733**	**$ 510**	**$ 692**	**$ 14,580**	**$ 3,037**	**$ 177**	**$ 20,729**
Charge-offs	**—**	**—**	**—**	**—**	**(564)**	**(22)**	**(586)**
Recoveries	**—**	**—**	**—**	**—**	**100**	**21**	**121**
Provision	**50**	**14**	**(36)**	**1,838**	**(209)**	**(57)**	**1,600**
ACL at June 30, 2026	**$ 1,783**	**$ 524**	**$ 656**	**$ 16,418**	**$ 2,364**	**$ 119**	**$ 21,864**
ACL at December 31, 2025	**$ 1,665**	**$ 500**	**$ 652**	**$ 14,042**	**$ 3,641**	**$ 155**	**$ 20,655**
Charge-offs	**—**	**—**	**—**	**—**	**(911)**	**(63)**	**(974)**
Recoveries	**—**	**—**	**67**	**—**	**279**	**35**	**381**
Provision	**118**	**24**	**(63)**	**2,376**	**(645)**	**(8)**	**1,802**
ACL at June 30, 2026	**$ 1,783**	**$ 524**	**$ 656**	**$ 16,418**	**$ 2,364**	**$ 119**	**$ 21,864**
ACL at March 31, 2025	$ 1,529	$ 470	$ 455	$ 12,480	$ 3,394	$ 116	$ 18,444
Charge-offs	—	—	—	—	(10)	(43)	(53)
Recoveries	—	—	—	—	21	6	27
Provision	108	18	106	372	55	45	704
ACL at June 30, 2025	$ 1,637	$ 488	$ 561	$ 12,852	$ 3,460	$ 124	$ 19,122
ACL at December 31, 2024	$ 1,497	$ 461	$ 376	$ 12,004	$ 3,182	$ 133	$ 17,653
Charge-offs	—	—	—	—	(13)	(61)	(74)
Recoveries	—	—	3	—	75	11	89
Provision	140	27	182	848	216	41	1,454
ACL at June 30, 2025	$ 1,637	$ 488	$ 561	$ 12,852	$ 3,460	$ 124	$ 19,122

Note 7. 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 costs:

The components of total lease cost were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2026**	2025	**2026**	2025
Operating lease cost	**$ 186**	$ 179	**$ 371**	$ 358
Short-term lease cost	**4**	4	**8**	8
Variable lease cost	**44**	41	**87**	81
Total lease cost	**$ 234**	$ 224	**$ 466**	$ 447

Supplemental Lease Information:

(Dollars in thousands)	Six Months Ended June 30, **2026**	2025
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 360**	$ 357
Weighted-average remaining lease term (years)	**10.2**	11.3
Weighted-average discount rate	**3.65%**	3.54%

Lease Obligations:

Future undiscounted lease payments for operating leases with initial terms of one year or more as of June 30, 2026, are as follows:

(Dollars in thousands)	
2026	**$ 367**
2027	**597**
2028	**549**
2029	**545**
2030	**526**
2031 and beyond	**2,545**
Undiscounted cash flow	**5,129**
Imputed Interest	**(878)**
Total lease liability	**$ 4,251**

Note 8. Other Real Estate Owned

The Bank had no other real estate owned at June 30, 2026 and December 31, 2025.

Note 9. 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. On March 16, 2026, the Corporation terminated the interest rate swap contracts and recognized $69 thousand of interest income on investments, and no cash collateral was posted as of June 30, 2026.

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.

(Dollars in thousands)	**As of June 30, 2026**			As of December 31, 2025		
	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
Total derivatives designated as hedging instruments			$ —			$ 124
Derivatives not designated as hedging instruments						
Other Contracts	$ **5,744**	Other Liabilities	$ —	$ 5,853	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.

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)		Three Months Ended June 30,		Six Months Ended June 30,	
		2026	2025	**2026**	2025
Interest rate swaps	Investment income	$ -	$ 202	$ **53**	$ 401

The income effect of the derivative not designated as a hedging instrument was $0 as of June 30, 2026 and 2025.

The table below presents the carrying amount of the derivative financial instruments for the periods shown:

(Dollars in thousands)	Carrying amount of the hedged items As of June 30,	
	2026	2025
Investment securities, AFS (1)	**$ -**	$ 108,250

(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.

Note 10. Pension

The components of pension expense for the periods presented are as follows:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	**2026**	2025
Components of net periodic cost:				
Service cost	**$ 45**	$ 53	**$ 90**	$ 106
Interest cost	**192**	199	**384**	399
Expected return on plan assets	**(225)**	(206)	**(454)**	(414)
Recognized net actuarial loss	**35**	24	**70**	44
Total pension expense	**$ 47**	$ 70	**$ 90**	$ 135

The service cost component of pension expense is recorded in the salaries line and all other cost components are recorded in the other expense line of the Consolidated Statements of Income.

Note 11. 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 period-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 may be different than the amounts reported at each year-end. The Corporation uses the exit price notion to measure the fair value of financial instruments.

FASB ASC Topic 820, "Fair Value Measurements", 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 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

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 the first six months of 2026. 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 date (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 June 30, 2026**			
Assets	**Basis**	**Level 1**	**Level 2**	**Level 3**	**Total**
Available for sale:					
U.S. Treasury		**62,952**	**—**	**—**	**62,952**
Municipal		**—**	**136,916**	**—**	**136,916**
Corporate		**—**	**7,892**	**—**	**7,892**
Agency MBS & CMO		**—**	**125,525**	**—**	**125,525**
Non-Agency MBS & CMO		**—**	**93,791**	**—**	**93,791**
Asset-backed		**—**	**25,269**	**—**	**25,269**
Total available for sale	**Recurring**	**$ 62,952**	**$ 389,393**	**$ —**	**$ 452,345**
Collateral dependent loans (1)	Nonrecurring	—	—	15,861	15,861

(Dollars in thousands)		Fair Value at December 31, 2025			
Assets	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	Recurring	$ 33,263	$ 421,323	$ —	$ 454,586
Collateral dependent loans (1)	Nonrecurring	—	—	6,227	6,227
Derivatives	Recurring	—	124	—	124

(1) Collateral dependent loans with a specific reserve 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.

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 June 30, 2026.

The following table presents additional quantitative information about Level 3 assets measured at fair value on a nonrecurring basis for the periods shown.

(Dollars in thousands) June 30, 2026	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Collateral Dependent	$ 15,861	Appraisal	Appraisal adjustment on Real estate assets	0 - 20%
			Cost to sell	10%
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	Valuation of Business assets	100%
			Cost to sell	0%

(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:

	June 30, 2026				
(Dollars in thousands)	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets, carried at cost:					
Cash and cash equivalents	**$ 195,031**	**$ 195,031**	**$ 195,031**	**$ —**	**$ —**
Long-term interest-earning deposits in other banks	**750**	**750**	**750**	—	—
Loans held for sale	**2,797**	**2,851**	**—**	**2,851**	**—**
Net loans	**1,588,755**	**1,577,561**	**—**	**—**	**1,577,561**
Accrued interest receivable	**8,459**	**8,459**	**—**	**—**	**8,459**
Financial liabilities:					
Deposits	**$ 1,924,588**	**$ 1,924,340**	**$ —**	**$ 1,924,340**	**$ —**
FHLB advances	**200,000**	**200,411**	**—**	**200,411**	**—**
Subordinate notes	**10,855**	**9,532**	**—**	**9,532**	**—**
Accrued interest payable	**3,623**	**3,623**	**—**	**3,623**	**—**

	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-earning 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	—

Note 12. Deposits

(Dollars in thousands)	June 30, 2026	December 31, 2025
Noninterest-bearing checking	**$ 341,103**	$ 310,251
Interest-bearing checking	**409,088**	431,843
Money management	**848,023**	771,231
Savings	**97,722**	98,124
Total interest-bearing checking and savings	**1,354,833**	1,301,198
Time deposits	**206,595**	202,266
Time - brokered deposits	**22,057**	22,057
Total time deposits	**228,652**	224,323
Total deposits	**$ 1,924,588**	$ 1,835,772
Overdrawn deposit accounts reclassified as loans	**$ 111**	$ 178

Time deposits greater than $250,000 at June 30, 2026 and December 31, 2025 were $56.0 million and $55.9 million, respectively.

Note 13. Borrowings

On June 30, 2026, the Bank had $200.0 million in total borrowings from the Federal Home Loan Bank of Pittsburgh (FHLB), compared to $200.0 million on December 31, 2025. The borrowings have a rate of 4.32% and are due January 12, 2027.

On June 30, 2026, 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 $145 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 resets 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. Capital Ratios

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 shown in the table below. In addition, a capital conservation buffer of 2.5% 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 for each respective capital measurement. The Bank's capital conservation buffer at June 30, 2026 was 5.73% compared to the regulatory buffer of 2.5%. Compliance with the capital conservation buffer is required in order to avoid limitations to certain capital distributions and is in addition to the minimum required capital requirements. As of June 30, 2026, the Bank was "well capitalized."

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

In 2026, the federal banking agencies amended the CBLR to decrease the CBLR ratio from 9% to 8% effective July 1, 2026. The revisions to the CBLR also provide for a longer grace period for banks that fall out of compliance with the new ratio to regain compliance. Adoption of the new CBLR may be made on the bank's quarterly call report. The Bank does not expect to adopt the new CBLR ratio.

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 summarizes the regulatory capital requirements and results as of June 30, 2026 and December 31, 2025 for the Corporation and the Bank:

(Dollars in thousands)	**June 30, 2026**	December 31, 2025	**Regulatory Ratios** Adequately Capitalized Minimum	**Regulatory Ratios** Well Capitalized Minimum
Common Equity Tier 1 Risk-based Capital Ratio (1)				
Franklin Financial Services Corporation	**11.93%**	11.45%	N/A	N/A
Farmers & Merchants Trust Company	**12.47%**	12.02%	4.50%	6.50%
Tier 1 Risk-based Capital Ratio (2)				
Franklin Financial Services Corporation	**11.93%**	11.45%	N/A	N/A
Farmers & Merchants Trust Company	**12.47%**	12.02%	6.00%	8.00%
Total Risk-based Capital Ratio (3)				
Franklin Financial Services Corporation	**13.77%**	13.27%	N/A	N/A
Farmers & Merchants Trust Company	**13.73%**	13.27%	8.00%	10.00%
Tier 1 Leverage Ratio (4)				
Franklin Financial Services Corporation	**8.44%**	8.17%	N/A	N/A
Farmers & Merchants Trust Company	**8.83%**	8.57%	4.00%	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 15. 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 its 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 the three and six months ended June 30, 2026 and 2025:

(Dollars in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Wealth Management Fees	**2026**	2025	**2026**	2025
Asset Management Fees	**$ 2,430**	$ 2,205	**$ 4,615**	$ 4,200
Estate Management Fees	**81**	146	**148**	282
Commissions	**56**	68	**110**	151
Total	**$ 2,567**	$ 2,419	**$ 4,873**	$ 4,633

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. These also include fees for mortgages settled for third-party mortgage companies. 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 first 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.

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 16. 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 for the periods presented:

(Dollars in thousands)	**June 30, 2026**	December 31, 2025
Financial instruments whose contract amounts represent credit risk		
Commercial commitments to extend credit	**$ 302,860**	$ 300,228
Consumer commitments to extend credit (secured)	**143,151**	153,183
Consumer commitments to extend credit (unsecured)	**8,211**	7,083
	$ 454,222	$ 460,494
Standby letters of credit	**$ 38,274**	$ 29,880
ACL - Unfunded Commitments (1)	**$ 1,957**	$ 1,899

(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. Generally, 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 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.

The Corporation establishes 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 the Corporation is able to do so, it also determines estimates of possible losses, whether in excess of any accrued liability or where there is no accrued liability.

These assessments are based on the analysis of currently available information and are subject to significant judgment and a variety of assumptions and uncertainties. As new information is obtained, the Corporation may change its assessments and, as a result, take or adjust the amounts of its accruals and change its 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. Its exposure and ultimate losses may be higher, possibly significantly higher, than amounts it may accrue or amounts it may estimate.

In management's opinion, the Corporation does 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 at this time will have a material adverse effect on its financial position. The Corporation cannot now determine, however, whether or not any claim asserted against it will have a material adverse effect on its results of operations in any future reporting period, which will depend on, among other things, the amount of loss resulting from the claim and the amount of income otherwise reported for the reporting period. Thus, at June 30, 2026, the Corporation is 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.

Note 17. Segment Reporting

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

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

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

	For the Three Months Ended June 30, 2026				For the Six Months Ended June 30, 2026			
	Reportable Segments				Reportable Segments			
(Dollars in thousands)	Community Banking	Wealth	Other (1)	Consolidated Total	Community Banking	Wealth	Other (1)	Consolidated Total
Interest and dividend Income	$ 28,931	$ —	$ —	$ 28,931	$ 56,701	$ —	$ —	$ 56,701
Noninterest income	2,582	2,567	—	5,149	5,636	4,873	—	10,509
Total consolidated revenue				34,080				67,210
Interest expense	9,383	—	201	9,584	18,428	—	406	18,834
Provision for credit losses	1,639	—	—	1,639	1,860	—	—	1,860
Salaries and benefit expense	7,679	936	—	8,615	15,730	1,909	—	17,639
Other noninterest expense (2)	5,074	322	598	5,994	10,521	630	1,170	12,321
Income before income taxes	7,738	1,309	(799)	8,248	15,798	2,334	(1,576)	16,556
Income tax expense	1,800	—	(163)	1,637	3,639	—	(331)	3,308
Net income	$ 5,938	$ 1,309	$ (636)	$ 6,611	$ 12,159	$ 2,334	$ (1,245)	$ 13,248
Total assets for reportable segments	$ 2,333,397	$ 1,575	209	$ 2,335,181	$ 2,333,397	$ 1,575	209	$ 2,335,181

(1) Includes parent company expense not allocated to a reportable segment and is provided to reconcile to the consolidated totals.
(2) Includes all noninterest expense items reported on the Consolidated Statement of Income, excluding salaries and benefit expense for the Community Banking Segment. Includes professional fees, data processing services, other miscellaneous expense and overhead allocations for the Wealth Segment.

(Dollars in thousands)	For the Three Months Ended June 30, 2025				For the Six Months Ended June 30, 2025			
	Reportable Segments				Reportable Segments			
	Community Banking	Wealth	Other (1)	Consolidated Total	Community Banking	Wealth	Other (1)	Consolidated Total
Interest and dividend Income	$ 28,600	$ —	$ —	$ 28,600	$ 55,658	$ —	$ —	$ 55,658
Noninterest income	2,691	2,419	(7)	5,103	5,038	4,633	(7)	9,664
Total consolidated revenue				33,703				65,322
Interest expense	11,099	—	263	11,362	22,287	—	528	22,815
Provision for credit losses	635	—	—	635	1,414	—	—	1,414
Salaries and benefit expense	7,824	1,040	—	8,864	15,309	2,061	—	17,370
Other noninterest expense (2)	4,608	291	626	5,525	9,835	566	1,194	11,595
Income before income taxes	7,125	1,088	(896)	7,317	11,851	2,006	(1,729)	12,128
Income tax expense	1,635	—	(226)	1,409	2,525	—	(226)	2,299
Net income	$ 5,490	$ 1,088	$ (670)	$ 5,908	$ 9,326	$ 2,006	$ (1,503)	$ 9,829
Total assets for reportable segments	$ 2,284,241	$ 1,461	$ 1,043	$ 2,286,745	$ 2,284,241	$ 1,461	1,043	$ 2,286,745

(1) Includes parent company expense not allocated to a reportable segment and is provided to reconcile to the consolidated totals.
(2) Includes all noninterest expense items reported on the Consolidated Statement of Income, excluding salaries and benefit expense for the Community Banking Segment. Includes professional fees, data processing services, other miscellaneous expense and overhead allocations for the Wealth Segment.

Note 18. Reclassifications

Certain prior period amounts may have been reclassified to conform to the current year presentation. Such reclassifications did not affect prior year net income or shareholders' equity.

Note 19. Subsequent Events

On August 2, 2026, an $8.6 million nonaccrual loan (see Note 6, Loan Quality and Allowance for Loan Loss) defaulted under the terms of a forbearance agreement with the Bank. As of the filing date of this Quarterly Report on Form 10-Q, the borrower remained within the cure period provided by the forbearance agreement, and the Bank was reviewing its rights and remedies under the terms of the agreement. Management evaluated the event and concluded that no adjustment to the consolidated financial statements as of June 30, 2026 was required.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Management's Discussion and Analysis of Results of Operations and Financial Condition
For the Three and Six Months Ended June 30, 2026 and 2025

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 such as "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 the rates of inflation and the effects of inflation, changes in interest rates, disruption in the financial services industry caused by bank failures and uncertainties involving various banks, changes in the Corporation's cost of funds, changes in government monetary policy, changes in government regulation and taxation of financial institutions, 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.

Critical Accounting Policies

Management has identified critical accounting policies for the Corporation. These policies are particularly sensitive, requiring significant judgements, estimates and assumptions to be made by Management.

There were no changes to the critical accounting policies disclosed in the 2025 Annual Report on Form 10-K in regards to application or related judgments and estimates used as of June 30, 2026. Please refer to Item 7 of the Corporation's 2025 Annual Report on Form 10-K for a more detailed disclosure of the critical accounting policies.

Results of Operations

Summary

A summary of operating results for Franklin Financial Services Corporation for the three and six months ended June 30, 2026 are as follows:

- Net income: $6.6 million (basic and diluted earnings per share $1.47) for the second quarter of 2026 compared to $5.9 million (basic and diluted earnings per share $1.32) for the second quarter of 2025, an increase of 11.9%. Net income for the first six months of 2026 was $13.2 million (basic earnings per share $2.95 and diluted earnings per share $2.94) compared to $9.8 million (basic earnings per share $2.21 and diluted earnings per share $2.20) for the same period in 2025, an increase of 34.8%
- Wealth Management: $2.6 million in fees for the second quarter of 2026, an increase of 6.1% from $2.4 million in the second quarter of 2025. Fees were $4.9 million for the first six months of 2026 compared to $4.6 million for the first six months of 2025, an increase of 5.2%. Assets under management were $1.481 billion on June 30, 2026.
- Asset Growth: $2.335 billion in total assets on June 30, 2026, an increase of 4.3% from $2.239 billion at year-end 2025.
- Loan Growth: Net loans totaled $1.589 billion on June 30, 2026, an increase of 3.1% from $1.541 billion on December 31, 2025.
- Deposit Growth: Total deposits of $1.925 billion, an increase of 4.8% from $1.836 billion on December 31, 2025.
- Quarterly Performance Metrics: Return on Average Assets (ROA) of 1.14%, Return on Average Equity (ROE) of 14.80%, and Net Interest Margin (NIM) of 3.50%, on an annualized basis for the second quarter of 2026, compared to an ROA of 1.04%, ROE of 15.64% and NIM of 3.21% for the second quarter of 2025.
- On July 16, 2026, the Board of Directors declared $0.34 per share regular quarterly cash dividend for the third quarter of 2026 to be paid on August 26, 2026, to shareholders of record at the close of business on August 7, 2026. This dividend represents a 3.0% increase over the third quarter 2025 dividend.

Key performance ratios as of, or for the periods ended as shown:

(Dollars in thousands, except per share) (Unaudited)	Six Months Ended **June 30, 2026**	Six Months Ended June 30, 2025	Twelve Months Ended December 31, 2025
Balance Sheet Highlights			
Total assets	**$ 2,335,181**	$ 2,286,745	$ 2,239,018
Debt securities available for sale	**452,345**	481,259	454,586
Loans, net	**1,588,755**	1,500,035	1,540,583
Deposits	**1,924,588**	1,893,471	1,835,772
Other borrowings	**200,000**	200,000	200,000
Shareholders' equity	**183,845**	157,364	175,242
Summary of Operations			
Interest income	**$ 56,701**	$ 55,658	$ 114,371
Interest expense	**18,834**	22,815	44,725
Net interest income	**37,867**	32,843	69,646
Provision for credit losses - loans	**1,802**	1,454	3,030
Provision for (reversal of) credit losses - unfunded commitments	**58**	(40)	(131)
Total provision for credit losses	**1,860**	1,414	2,899
Net interest income after provision for credit losses	**36,007**	31,429	66,747
Noninterest income	**10,509**	9,664	19,176
Noninterest expense	**29,960**	28,965	59,656
Income before income taxes	**16,556**	12,128	26,267
Total income tax expense	**3,308**	2,299	5,041
Net income	**$ 13,248**	$ 9,829	$ 21,226
Performance Measurements			
Return on average assets*	**1.17%**	0.89%	0.94%
Return on average equity*	**14.96%**	13.27%	13.55%
Return on average tangible equity (1)*	**15.63%**	14.01%	14.38%
Efficiency ratio (1)	**61.33%**	67.35%	66.48%
Net interest margin*	**3.52%**	3.13%	3.25%
Shareholders' Value (per common share)			
Diluted earnings per share	**$ 2.95**	$ 2.21	$ 4.74
Basic earnings per share	**2.94**	2.20	4.76
Regular cash dividends declared	**0.67**	0.65	1.31
Book value	**40.91**	35.22	39.11
Tangible book value (1)	**38.90**	33.20	37.10
Market value	**62.60**	34.63	50.20
Market value/book value ratio	**153.02%**	98.31%	128.36%
Market value/tangible book value ratio	**160.91%**	104.28%	135.33%
Price/earnings multiple (year-to-date)*	**10.65**	6.56	10.59
Dividend yield (year-to-date)**	**2.16%**	3.81%	2.63%
Dividend payout ratio (year-to-date)	**22.70%**	29.39%	27.54%
Safety and Soundness			
Average equity/average assets	**7.81%**	6.67%	6.92%
Risk-based capital ratio (Total)	**13.77%**	13.33%	13.27%
Leverage ratio (Tier 1)	**8.44%**	7.78%	8.17%
Common equity ratio (Tier 1)	**11.93%**	10.91%	11.45%
Nonperforming loans / gross loans	**1.10%**	0.71%	0.55%
Nonperforming assets/total assets	**0.76%**	0.47%	0.38%
Allowance for credit losses as a % of loans	**1.36%**	1.26%	1.32%
Net loans (charged-off) recovered / average loans*	**-0.07%**	0.00%	0.00%
Assets under Management			
Trust assets under management (fair value)	**$ 1,326,643**	$ 1,221,333	$ 1,273,421
Held at third-party brokers (fair value)	**154,826**	138,763	147,880
	$ 1,481,469	$ 1,360,096	$ 1,421,301

**Year-to-date annualized*
(1) See the section titled "GAAP versus Non-GAAP Presentation" that follows.

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 (Goodwill), 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 non-GAAP measurements are not intended to be used as a substitute for the related GAAP measurements. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP. In the event of such a disclosure or release, the Securities and Exchange Commission's Regulation G requires: (i) the presentation of the most directly comparable financial measure calculated and presented in accordance with GAAP and (ii) a reconciliation of the differences between the non-GAAP financial measure presented and the most directly comparable financial measure calculated and presented in accordance with GAAP. The following table shows the calculation of the non-GAAP measurements as of, or for the six months ended June 30, 2026 and 2025 and the year ended December 31, 2025.

(Dollars in thousands, except per share)

	June 30, 2026	June 30, 2025	December 31, 2025
Return on Tangible Equity (non-GAAP)			
Net income	$ **13,248**	$ 9,829	$ 21,226
Average shareholders' equity	**178,541**	149,377	156,638
Less average intangible assets	**(9,016)**	(9,016)	(9,016)
Average tangible equity (non-GAAP)	**169,525**	140,361	147,622
Return on average tangible equity (non-GAAP)*	**15.63%**	14.01%	14.38%
Tangible Book Value (per share) (non-GAAP)			
Shareholders' equity	$ **183,845**	$ 157,364	$ 175,242
Less intangible assets	**(9,016)**	(9,016)	(9,016)
Tangible book value (non-GAAP)	**174,829**	148,348	166,226
Shares outstanding (in thousands)	**4,494**	4,468	4,481
Tangible book value per share (non-GAAP)	$ **38.90**	$ 33.20	$ 37.10
Efficiency Ratio			
Noninterest expense	$ **29,960**	$ 28,965	$ 59,656
Net interest income	**37,867**	32,843	69,646
Plus tax equivalent adjustment to net interest income	**474**	490	904
Plus noninterest income, net of securities transactions	**10,509**	9,671	19,183
Total revenue	**48,850**	43,004	89,733
Efficiency ratio (Noninterest expense/total revenue)	**61.33%**	67.35%	66.48%

* Year-to-date annualized

Net Interest Income

The largest 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. Demand deposits enhance net interest income because they are noninterest-bearing deposits. 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.

Comparison of the three months ended June 30, 2026 to the three months ended June 30, 2025:

Tax equivalent net interest income increased $2.1 million to $19.6 million in the second quarter of 2026 compared to $17.5 million for the same period in 2025. Tax equivalent net interest income increased $1.8 million from balance sheet volume changes and $300 thousand from interest rate changes.

The following table presents average balances, tax-equivalent (T/E) interest income, and yields earned or rates paid on the assets or liabilities. Loans are classified by type of collateral and residential loans include commercial purpose loans and nonaccrual loans are included in the average loan balance used to calculate the yield. All nontaxable interest income has been adjusted to a tax-equivalent basis using a tax rate of 21%.

	For the Three Months Ended June 30,					
	2026			2025		
(Dollars in thousands)	Average balance	Income or expense	Average yield/rate	Average balance	Income or expense	Average yield/rate
Interest-earning assets:						
Deposits in other banks	$ 197,385	$ 1,826	3.71%	$ 197,429	$ 2,193	4.46%
Investment securities:						
Taxable securities	394,588	3,480	3.54%	440,685	4,524	4.12%
Tax-exempt securities	50,018	330	2.65%	48,863	333	2.73%
Restricted stock	8,978	201	8.96%	8,892	189	8.53%
Total investment securities	453,584	4,011	3.55%	498,440	5,046	4.06%
Gross loans:						
Residential real estate 1-4 family:						
First liens	291,897	4,237	5.82%	254,786	3,591	5.65%
Junior liens and lines of credit	94,652	1,323	5.61%	85,584	1,279	5.99%
Residential real estate - construction	59,749	870	5.84%	47,073	816	6.95%
Commercial real estate	925,256	13,957	6.05%	853,228	12,535	5.89%
Commercial	209,724	2,729	5.22%	238,373	3,203	5.39%
Consumer	10,555	215	8.17%	7,910	182	9.23%
Total gross loans	1,591,833	23,331	5.88%	1,486,954	21,606	5.83%
Total interest-earning assets	2,242,802	$ 29,168	5.22%	2,182,823	$ 28,845	5.30%
Noninterest-earning assets	87,815			92,430		
Total assets	$ 2,330,617			$ 2,275,253		
Interest-bearing liabilities:						
Deposits:						
Interest checking	$ 424,622	$ 608	0.57%	$ 411,391	$ 627	0.61%
Money management	832,272	4,577	2.21%	760,422	4,992	2.63%
Savings	97,081	14	0.06%	96,213	19	0.08%
Time	207,760	1,767	3.41%	231,272	2,320	4.02%
Time - brokered	22,057	236	4.29%	87,057	960	4.42%
Total interest-bearing deposits	1,583,792	7,202	1.82%	1,586,355	8,918	2.25%
Subordinate notes	10,852	201	7.41%	19,713	263	5.34%
Federal Home Loan Bank borrowings	200,000	2,181	4.32%	200,000	2,181	4.32%
Total interest-bearing liabilities	1,794,644	9,584	2.14%	1,806,068	11,362	2.52%
Noninterest checking	339,881			301,240		
Other liabilities	16,886			16,470		
Shareholders' equity	179,206			151,475		
Total liabilities and shareholders' equity	$ 2,330,617			$ 2,275,253		
T/E net interest income/Net interest margin		19,584	3.50%		17,483	3.21%
Tax equivalent adjustment		(237)			(245)	
Net interest income		$ 19,347			$ 17,238	
Net Interest Spread			3.08%			2.78%
Cost of Funds			1.80%			2.16%
Cost of Deposits			1.50%			1.90%

Provision for Credit Losses

For the second quarter of 2026, the provision for credit losses on loans was $1.6 million compared to $704 thousand for the second quarter of 2025. The increase is due primarily to an additional $934 thousand of specific reserves on two collateral dependent loans to unrelated borrowers. See the Loan Quality discussion for additional information on these loans. The ACL ratio for loans was 1.36% on June 30, 2026 and 1.32% on December 31, 2025.

The provision for credit losses on unfunded commitments was $39 thousand compared to reversal of $69 thousand for the same period in 2025. The ACL for unfunded commitments was $2.0 million on June 30, 2026 and December 31, 2025, respectively. For more information refer to the Loan Quality and Allowance for Credit Losses discussion in the Financial Condition section.

Noninterest Income

For the second quarter of 2026, noninterest income increased $46 thousand compared to the same period in 2025. Wealth Management fees increased, primarily because of growth in assets under management. Nearly all categories of noninterest income increased compared to the prior year period, but increases were partially offset by a decrease in other income from a state tax refund received in 2025.

The following table presents a comparison of noninterest income for the three months ended June 30, 2026 and 2025:

	For the Three Months Ended June 30,		Change	
(Dollars in thousands)	**2026**	2025	Amount	%
Noninterest Income				
Wealth management fees	**$ 2,567**	$ 2,419	$ 148	6.1
Loan service charges	**289**	294	(5)	(1.7)
Gain on sale of loans	**227**	132	95	72.0
Deposit service charges and fees	**694**	613	81	13.2
Other service charges and fees	**521**	480	41	8.5
Debit card income	**632**	608	24	3.9
Increase in cash surrender value of life insurance	**135**	116	19	16.4
Other	**84**	441	(357)	(81.0)
Total noninterest income	**$ 5,149**	$ 5,103	$ 46	0.9

Noninterest Expense

Noninterest expense for the second quarter of 2026 increased $220 thousand compared to the same period in 2025. Salary expense increased $243 thousand. Employee benefits decreased, primarily in health insurance ($300 thousand). Other expense increased primarily from armored car expense and in loan collection expense.

The following table presents a comparison of noninterest expense for the three months ended June 30, 2026 and 2025:

	For the Three Months Ended June 30,		Change	
(Dollars in thousands)				
Noninterest Expense	**2026**	2025	Amount	%
Salaries	**$ 6,453**	$ 6,210	$ 243	3.9
Employee benefits	**2,162**	2,654	(492)	(18.5)
Net occupancy	**1,178**	1,146	32	2.8
Marketing and advertising	**362**	353	9	2.5
Legal and professional	**556**	537	19	3.5
Data processing	**1,578**	1,514	64	4.2
Pennsylvania bank shares tax	**236**	137	99	72.3
FDIC insurance	**367**	409	(42)	(10.3)
ATM/debit card processing	**383**	344	39	11.3
Telecommunications	**128**	109	19	17.4
Other	**1,206**	976	230	23.6
Total noninterest expense	**$ 14,609**	$ 14,389	$ 220	1.5

Provision for Income Taxes

For the second quarter of 2026, total income tax was $1.6 million, comprised of $1.5 million in Federal income tax and $89 thousand in state income taxes. Income tax for the second quarter increased by $228 thousand compared to the second quarter of 2025, due to higher pre-tax income in 2026. The effective tax rate for the second quarter of 2026 was 19.9% compared to 19.3% for the same period in 2025. The federal statutory tax rate is 21% for 2026 and 2025.

Comparison of the six months ended June 30, 2026 to the six months ended June 30, 2025:

Tax equivalent net interest income increased $5.0 million to $38.3 million in the first six months of 2026 compared to $33.3 million for the same period in 2025. Tax equivalent net interest income increased $3.6 million from balance sheet volume changes and $1.4 million from interest rate changes.

The following table presents average balances, tax-equivalent (T/E) interest income, and yields earned or rates paid on the assets or liabilities. Loans are classified by type of collateral and residential loans include commercial purpose loans and nonaccrual loans are included in the average loan balance used to calculate the yield. All nontaxable interest income has been adjusted to a tax-equivalent basis using a tax rate of 21%.

	For the Six Months Ended June 30,					
	2026			2025		
(Dollars in thousands)	Average balance	Income or expense	Average yield/rate	Average balance	Income or expense	Average yield/rate
Interest-earning assets:						
Deposits in other banks	$ 160,181	$ 2,944	3.71%	$ 185,567	$ 4,101	4.46%
Investment securities:					—	
Taxable securities	396,543	7,096	3.61%	447,097	9,349	4.22%
Tax-exempt securities	50,376	660	2.64%	49,616	667	2.71%
Restricted stock	8,938	404	9.04%	8,831	379	8.65%
Total investment securities	455,857	8,160	3.61%	505,544	10,395	4.15%
Gross loans:						
Residential real estate 1-4 family:						
First liens	293,639	8,433	5.79%	249,664	6,882	5.56%
Junior liens and lines of credit	93,791	2,602	5.59%	84,363	2,494	5.96%
Residential real estate - construction	58,376	1,777	6.14%	40,883	1,384	6.83%
Commercial real estate	917,187	27,286	6.00%	834,940	24,246	5.86%
Commercial	208,925	5,552	5.36%	236,669	6,288	5.36%
Consumer	10,282	421	8.26%	7,925	358	9.11%
Total gross loans	1,582,200	46,071	5.87%	1,454,444	41,652	5.78%
Total interest-earning assets	2,198,238	$ 57,175	5.25%	2,145,555	$ 56,148	5.28%
Noninterest-earning assets	87,033			92,328		
Total assets	$ 2,285,271			$ 2,237,883		
Interest-bearing liabilities:						
Deposits:						
Interest checking	$ 422,186	$ 1,187	0.57%	$ 407,940	$ 1,218	0.60%
Money management	801,988	8,756	2.20%	744,778	9,883	2.68%
Savings	97,555	34	0.07%	96,629	59	0.12%
Time	209,886	3,642	3.50%	225,896	4,651	4.15%
Time - brokered	22,057	470	4.30%	87,057	2,137	4.95%
Total interest-bearing deposits	1,553,672	14,089	1.83%	1,562,300	17,948	2.32%
Subordinate notes	10,850	406	7.48%	19,708	528	5.36%
Federal Home Loan Bank borrowings	200,000	4,339	4.32%	200,000	4,339	4.32%
Total interest-bearing liabilities	1,764,522	18,834	2.15%	1,782,008	22,815	2.58%
Noninterest checking	324,753			289,464		
Other liabilities	17,455			17,034		
Shareholders' equity	178,541			149,377		
Total liabilities and shareholders' equity	$ 2,285,271			$ 2,237,883		
T/E net interest income/Net interest margin		38,341	3.52%		33,333	3.13%
Tax equivalent adjustment		(474)			(490)	
Net interest income		$ 37,867			$ 32,843	
Net Interest Spread			3.10%			2.70%
Cost of Funds			1.82%			2.22%
Cost of Deposits			1.51%			1.95%

Provision for Credit Losses

For the first half of 2026, the provision for credit losses on loans was $1.8 million compared to $1.5 million for the same period in 2025. The increase is due primarily to an additional $1.0 million of specific reserves on two collateral dependent loans to unrelated borrowers, which was partially offset by a change in management's reassessment of the municipal loans portfolio and qualitative factor decreases for municipal loans. See the Loan Quality discussion for additional information on these loans. The ACL ratio for loans was 1.36% on June 30, 2026 and 1.32% on December 31, 2025.

The provision for credit losses on unfunded commitments was $58 thousand compared to a reversal of $40 thousand for the same period in 2025. The ACL for unfunded commitments was $2.0 million on June 30, 2026 and $1.9 million on December 31, 2025, respectively. For more information refer to the Loan Quality and Allowance for Credit Losses discussion in the Financial Condition section.

Noninterest Income

For the first half of 2026, noninterest income, before securities transactions, increased $838 thousand compared to the same period in 2025. Wealth Management fees increased, primarily because of growth in assets under management, the gain on sale of loans increased due to a one-time sale of mortgages and deposit service charges and fees increased due to a higher volume of account analysis fees.

The following table presents a comparison of noninterest income for the six months ended June 30, 2026 and 2025:

	For the Six Months Ended June 30,		Change	
(Dollars in thousands)	**2026**	2025	Amount	%
Noninterest Income				
Wealth management fees	**$ 4,873**	$ 4,633	$ 240	5.2
Loan service charges	**527**	503	24	4.8
Gain on sale of loans	**545**	241	304	126.1
Deposit service charges and fees	**1,341**	1,218	123	10.1
Other service charges and fees	**1,002**	963	39	4.0
Debit card income	**1,251**	1,167	84	7.2
Increase in cash surrender value of life insurance	**267**	230	37	16.1
Other	**703**	716	(13)	(1.8)
Noninterest income before securities transactions	**10,509**	9,671	838	8.7
Change in fair value of equity securities	**—**	(7)	7	(100.0)
Total noninterest income	**$ 10,509**	$ 9,664	$ 845	8.7

Noninterest Expense

Noninterest expense for the first half of 2026 increased $995 thousand compared to the same period in 2025. Salaries increased $304 thousand. Legal and professional fees increased primarily in audit and consulting fees, and PA shares tax expense increased in 2026 compared to the same period in 2025. FDIC insurance decreased due to an improvement in performance metrics.

The following table presents a comparison of noninterest expense for the six months ended June 30, 2026 and 2025:

(Dollars in thousands)	For the Six Months Ended June 30,		Change	
Noninterest Expense	**2026**	2025	Amount	%
Salaries	**$ 12,690**	$ 12,386	$ 304	2.5
Employee benefits	**4,949**	4,984	(35)	(0.7)
Net occupancy	**2,419**	2,371	48	2.0
Marketing and advertising	**788**	786	2	0.3
Legal and professional	**1,251**	1,064	187	17.6
Data processing	**3,119**	3,071	48	1.6
Pennsylvania bank shares tax	**490**	297	193	65.0
FDIC insurance	**850**	954	(104)	(10.9)
ATM/debit card processing	**760**	683	77	11.3
Telecommunications	**262**	216	46	21.3
Other	**2,382**	2,153	229	10.6
Total noninterest expense	**$ 29,960**	$ 28,965	$ 995	3.4

Provision for Income Taxes

For the first half of 2026, total income tax was $3.3 million, comprised of $3.0 million in Federal income tax and $319 thousand in state income taxes. Income tax for the first half of 2026 increased by $1.0 million compared to the first half of 2025, due to higher pre-tax income in 2026. The effective tax rate for the first half of 2026 was 20.0% compared to 19.0% for the same period in 2025. The federal statutory tax rate is 21% for 2026 and 2025.

Financial Condition

Cash and Cash Equivalents:

Cash and cash equivalents totaled $195.0 million on June 30, 2026, an increase of $67.3 million from the prior year-end balance of $127.7 million, as deposit growth has outpaced loan growth during the first half of 2026. Short-term interest-earning deposits are held primarily at the Federal Reserve ($168.9 million).

Investment Securities:

Available for Sale (AFS) Securities: At June 30, 2026, the AFS securities portfolio had an amortized cost of $481.4 million, unchanged from the prior year-end, and a fair value of $452.3 million, a decrease of $2.2 million from the prior year-end. During the first six months of 2026, the portfolio returned $33.0 million of principal and $33.2 million was purchased. The Bank did not sell any investments in the first six months of 2026. The AFS portfolio had a net unrealized loss of $29.1 million at June 30, 2026 compared to a net unrealized loss of $26.8 million at the prior year-end. The AFS portfolio averaged $444.6 million with a tax equivalized yield of 3.50% for the six months ended June 30, 2026. This compares to an average of $489.5 million and a tax-equivalized yield of 4.07% for the same period in 2025.

The AFS portfolio holdings are classified by type of security issuer. U.S. Agency mortgage-backed and collateralized mortgage obligations are issued by a U.S. Government Agency or a government sponsored entity and securitized by pools of 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 four 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.

Restricted Stock at Cost: The Bank held $9.0 million of restricted stock at June 30, 2026 and $8.9 million at December 31, 2025. Except for $30 thousand, this investment represents stock in Federal Home Loan Bank of Pittsburgh (the FHLB). The Bank is required to hold this stock to be a member of FHLB and it is carried at cost of $100 per share. The level of FHLB stock held is determined by FHLB and is comprised of a minimum membership amount plus a variable activity amount. 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 no 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. 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.

See Note 4 of the accompanying financial statements for additional information on Investment Securities.

Loans:

The following table presents a summary of loans outstanding, by class as of:

(Dollars in thousands)	**June 30, 2026**	December 31, 2025	Change Amount	Change %
Residential real estate 1-4 family				
Consumer first liens	**$ 233,681**	$ 213,440	$ 20,241	9.5
Commercial first lien	**62,714**	63,457	(743)	(1.2)
Total first liens	**296,395**	276,897	19,498	7.0
Consumer junior liens and lines of credit	**89,192**	84,650	4,542	5.4
Commercial junior liens and lines of credit	**7,475**	6,839	636	9.3
Total junior liens and lines of credit	**96,667**	91,489	5,178	5.7
Total residential real estate 1-4 family	**393,062**	368,386	24,676	6.7
Residential real estate - construction				
Consumer	**38,422**	29,609	8,813	29.8
Commercial	**15,656**	24,516	(8,860)	(36.1)
Total residential real estate construction	**54,078**	54,125	(47)	(0.1)
Commercial real estate	**949,366**	903,571	45,795	5.1
Commercial	**205,879**	225,499	(19,620)	(8.7)
Total commercial	**1,155,245**	1,129,070	26,175	2.3
Consumer	**8,234**	9,657	(1,423)	(14.7)
	1,610,619	1,561,238	49,381	3.2
Less: Allowance for credit losses	**(21,864)**	(20,655)	(1,209)	5.9
Net Loans	**$ 1,588,755**	$ 1,540,583	$ 48,172	3.1

Residential real estate: This category is comprised of consumer purpose loans secured by residential real estate and to a lesser extent, commercial purpose loans secured by residential real estate. The consumer purpose category represents traditional residential mortgage loans and home equity products (primarily junior liens and lines of credit). 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.

Total residential real estate loans increased by $24.7 million over the prior year-end, primarily in consumer first lien loans. For the first six months of 2026, the Bank originated $62.1 million in mortgages, including $25.5 million for sale through the secondary market compared to $54.8 million of total originations for the same period in 2025. 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.

Residential real estate construction: This category contains loans for the vertical construction of 1-4 family residential properties. The largest component of this category ($38.4 million) represents loans for individuals to construct personal residences, while loans to residential real estate developers totaled $15.7 million at June 30, 2026. The Bank's exposure to residential construction loans is concentrated primarily in south central Pennsylvania. All real estate construction loans are underwritten in the same manner, regardless of the use of an interest reserve.

Commercial real estate (CRE): This category includes commercial, industrial, farm and agricultural loans and land development loans, where real estate serves as the primary collateral for the loans. Total CRE loans increased to $949.4 million at June 30, 2026 from $903.6 million at the end of the prior year. Included in CRE are approximately $755 million of nonowner occupied loans located primarily in the Bank's market area of south-central Pennsylvania. The Bank's CRE concentration ratio is 348.2% of risk-based capital at June 30, 2026 compared to 349.9% at December 31, 2025.

The following table presents the largest non-owner occupied CRE by collateral:

(Dollars in thousands)	June 30, 2026		December 31, 2025	
Commercial Real Estate (CRE)	**Owner Occupied**	**Non-owner**	Owner Occupied	Non-owner
Apartments	**$ -**	**$ 161,924**	$ -	$ 163,356
Hotels & motels	**-**	**105,838**	5,963	96,231
Shopping centers	**131**	**95,705**	140	87,793
Office buildings	**26,222**	**73,841**	24,384	68,241
Land development	**-**	**97,768**	-	88,884

Included in CRE are real estate construction loans totaling $220.7 million. At June 30, 2026, the Bank had $94.3 million in real estate construction loans funded with an interest reserve and capitalized $1.3 million of interest in the first six months of 2026 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 and 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.

Commercial: This category includes commercial, industrial, farm, agricultural, and municipal loans. Commercial loans decreased $19.6 million to $205.9 million at June 30, 2026, compared to $225.5 million at the end of the prior year. On June 30, 2026, the Bank had $97.8 million in tax-free loans compared to $102.0 million at December 31, 2025.

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

(Dollars in thousands)

Commercial	**June 30, 2026**	**% of Commercial**	December 31, 2025	% of Commercial
Public administration	**$ 37,436**	**18%**	$ 40,095	18%
Utilities	**36,131**	**18%**	35,621	16%
Construction	**14,823**	**7%**	15,017	7%
Manufacturing	**14,785**	**7%**	19,930	9%

Participations: The Bank may supplement its own commercial loan production by purchasing loan participations. These participations are primarily located in south-central Pennsylvania. On June 30, 2026, the outstanding commercial participations were $96.4 million, or 7.8%, of commercial purpose loans and 6.0% of total gross loans compared to $100.8 million at December 31, 2025, or 8.2%, of commercial purpose loans and 6.5% of total gross loans. The Bank's total exposure (including outstanding balances and unfunded commitments) to purchased participations is $118.7 million, compared to $129.3 million at December 31, 2025. The commercial loan participations are comprised of $23.6 million of commercial loans and $72.8 million of CRE loans, reported in the respective loan class.

Consumer loans: This category had a balance of $8.2 million at June 30, 2026, compared to $9.7 million at prior year-end and is comprised primarily of installment loans and personal lines of credit.

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 performing or nonperforming rating based on the performance status of the loans. Nonperforming 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 (commercial loans rated 6, 7 or 8) 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 $51.6 million at June 30, 2026 compared to $58.8 million at December 31, 2025. The composition of the watch list (commercial loans rated 6, 7 or 8), by primary collateral, is shown in Note 6 of the accompanying financial statements.

The composition of the Watch list by risk rating is shown below:

(Dollars in thousands)	**June 30, 2026**	December 31, 2025
OAEM - 6	$ 21,843	$ 28,000
Substandard - 7	29,727	30,776
Doubtful - 8	—	—
Loss - 9	—	—
Total	$ 51,570	$ 58,776

Delinquent loans are a result of borrowers' cash flow and/or alternative sources of cash being insufficient to repay loans. The Bank's likelihood of collateral liquidation to repay the loans becomes more probable the further behind a borrower falls, particularly when loans reach 90 days or more past due. Management monitors the performance status of loans by the use of an aging report. The aging report can provide an early indicator of loans that may become severely delinquent and possibly result in a loss to the Bank. See Note 6 in the accompanying financial statements for information on the 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 June 30, 2026, the Bank had loans of $15.0 million (0.9% 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 $17.7 million at June 30, 2026 compared to $8.5 million at December 31, 2025 and the nonperforming loan to total loans ratio was 1.10% at June 30, 2026 compared to 0.55% at December 31, 2025. Loans past due 90-days or more, but still accruing, totaled $5 thousand at June 30, 2026 and December 31, 2025. The increase in nonaccrual loans in 2026 was largely due to one commercial real estate loan for $8.8 million that was put on nonaccrual in the second quarter of 2026. This loan is current on payments as of June 30, 2026 and a specific reserve of $734 thousand has been established for this loan based on its risk rating and collateral values.

The nonaccrual loans are comprised primarily of two (2) CRE loans to unrelated borrowers totaling $17.4 million. Of these two CRE loans, one is for a matured $7.0 million construction loan on a mixed-use commercial project. During the second quarter, the Bank committed to provide additional funding of up to $2.5 million (with $1.6 million advanced as of June 30, 2026) to fully enclose the property and protect the collateral, and to pay all past due construction costs. In total, $8.6 million is in nonaccrual for this borrower as of June 30, 2026. As part of this funding commitment, a forbearance agreement was signed by the developer that ceased all construction until funding from new sources was acquired, established specific performance criteria for the developer, and established specific remedies for the Bank in the event of non-compliance with the forbearance agreement. Based on a discounted "as-is" appraisal received in the first quarter of 2026 and the additional funding committed, the Bank increased its specific reserve from $1.0 million on March 31, 2026, to $1.2 million on June 30, 2026. The second CRE loan totals $8.8 million and is secured by six (6) commercial office buildings. This loan is a purchased participation loan where the Bank is not the lead lender. The loan was placed on nonaccrual status

during the second quarter of 2026, and as of June 30, 2026, the Bank has a specific reserve of $734 thousand based on a recent appraisal.

The Bank may modify loans to borrowers experiencing financial difficulty (BEFD) by providing modifications such as principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit loss. The Bank may also provide multiple types of concessions on one loan.

During the second quarter of 2026, the Bank provided modifications to two unrelated BEFD. One $7.0 million CRE loan was modified with a term extension that had a more-than-significant payment delay. As of June 30, 2026, this loan had matured and repayment has been delayed under the terms of a forbearance agreement. As part of the forbearance agreement, the Bank has committed to lend $2.5 million to the borrower and had advanced $1.6 million as of June 30, 2026, for a total of $8.6 million outstanding to this BEFD as of June 30, 2026. The payment terms of the new loan are also covered by the terms of the forbearance agreement. This loan is on nonaccrual status as of June 30, 2026, and a $1.2 million specific reserve has been established for this loan. The second loan modification was for an $8.8 million CRE loan that was granted interest only payments until the third quarter of 2026 when it is scheduled to return to full principal and interest payments. The Bank has no commitment to lend additional amounts to this borrower. As of June 30, 2026, this loan was on nonaccrual and had a specific reserve of $734 thousand.

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 Corporation has also elected the practical expedient to estimate expected credit losses based on the collateral's fair value less cost to sell. A loan is considered collateral-dependent when the repayment is expected to be provided primarily through the sale or operation of the collateral.

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 that will be the most similar and relevant to the next four quarters.
- The historical credit loss rate is applied to each WARM bucket through the next four quarter period.
- At the end of the four-quarter 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. At June 30, 2026, the pooled loan reserve was $19.9 million and approximately 68% of the pooled reserve was from the qualitative component. On June 30, 2026 the Bank had specific reserves of $1.9 million on two CRE loans compared to $1.2 million of specific reserves as of December 31, 2025.

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 ACL for unfunded commitments was $2.0 million on June 30, 2026 and $1.9 million on December 31, 2025.

The following table shows the allocation of the ACL and other loan performance ratios, by class, as of June 30, 2026 and December 31, 2025:

(Dollars in thousands)	Residential Real Estate 1-4 Family			Commercial			
	First Liens	Junior Liens & Lines of Credit	Construction	Real Estate	Commercial	Consumer	Total
2026							
Loans at June 30, 2026	$ 296,395	$ 96,667	$ 54,078	$ 949,366	$ 205,879	$ 8,234	$ 1,610,619
Average Loans through June 30, 2026	293,639	93,791	58,376	917,187	208,925	10,282	1,582,200
Nonaccrual Loans at June 30, 2026	51	19	—	17,608	49	—	17,727
Allowance for Credit Loss at June 30, 2026	1,783	524	656	16,418	2,364	119	21,864
YTD Net (Charge-offs)/Recoveries at June 30, 2026	—	—	67	—	(632)	(28)	(593)
Loans/Total Gross Loans at June 30, 2026	18%	6%	3%	59%	13%	1%	100%
Nonaccrual Loans/Total Gross Loans at June 30, 2026	0.02%	0.02%	0.00%	1.85%	0.02%	0.00%	1.10%
Allowance for Credit Loss/Gross Loans at June 30, 2026	0.60%	0.54%	1.21%	1.73%	1.15%	1.45%	1.36%
Net (Charge-offs) Recoveries/Average Loans at June 30, 2026*	0.00%	0.00%	0.23%	0.00%	-0.61%	-0.54%	-0.07%
Allowance for Credit Loss/Nonaccrual Loans at June 30, 2026							123.34%
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%

*Annualized

Deposits:

Total deposits increased $88.8 million during the first six months of 2026 to $1.925 billion. Noninterest checking increased $30.9 million to $341.1 million (17.7% of total deposits), primarily in municipal and small business accounts. Interest-bearing checking decreased by $22.8 million, primarily in retail deposits, while the Bank's money management product increased $76.8 million across all sectors. Time deposits increased $4.3 million.

As of June 30, 2026, the Bank had deposits of $289.5 million placed in a reciprocal deposit program ($105.5 million in interest-bearing checking and $184.0 million in money management) and $37.9 million in a reciprocal time deposit program included in time deposits. 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 June 30, 2026, the Bank's reciprocal deposits were 15.3% of the Bank's total liabilities compared to 17.0% at the previous year-end.

In July 2026, the 21st Century Road to Housing Act (the Act) became law. The Act expands the limit on the use of reciprocal deposits that can be excluded from brokered deposit treatment by banks. The Act prescribes a tiered calculation for reciprocal deposits and is expected to more than double the Bank's capacity for non-brokered reciprocal deposits.

The Bank estimates that approximately 90% of its deposits are FDIC insured or collateralized as of June 30, 2026, compared to 87% at December 31, 2025.

The following table presents a summary of deposits for the periods ended:

(Dollars in thousands)	**June 30, 2026**	December 31, 2025	Change Amount	Change %
Noninterest-bearing checking	**$ 341,103**	$ 310,251	$ 30,852	9.9
Interest-bearing checking	**409,088**	431,843	(22,755)	(5.3)
Money management	**848,023**	771,231	76,792	10.0
Savings	**97,722**	98,124	(402)	(0.4)
Total interest-bearing checking and savings	**1,354,833**	1,301,198	53,635	4.1
Time deposits	**206,595**	202,266	4,329	2.1
Time - brokered deposits	**22,057**	22,057	—	—
Total time deposits	**228,652**	224,323	4,329	1.9
Total deposits	**$ 1,924,588**	$ 1,835,772	$ 88,816	4.8
Overdrawn deposit accounts reclassified as loans	**$ 111**	$ 178		

Borrowings:

At June 30, 2026, the Bank had $200.0 million in total borrowings from the Federal Home Loan Bank of Pittsburgh (FHLB), with a rate of 4.32%, due January 12, 2027. The Bank's decision on how this borrowing is paid off or restructured will be made closer to the maturity date.

At June 30, 2026, 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 $145 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 resets 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:

Total shareholders' equity increased $8.6 million to $183.8 million as of June 30, 2026 from December 31, 2025. Retained earnings increased $10.2 million in 2026, with net income of $13.2 million partially offset by cash dividends of $3.0 million. Accumulated other comprehensive loss (AOCL) increased $1.9 million since year-end 2025. The Corporation's Dividend Reinvestment Plan (DRIP) added $36 thousand in new capital from optional cash contributions and $495 thousand from the reinvestment of quarterly dividends. The Corporation's dividend payout ratio was 22.70% for the first six months of 2026 compared to 29.39% for the same period in 2025.

As part of its quarterly dividend decision, the Corporation considers, among other factors, current and future income projections, dividend yield, payout ratio, current and future capital ratios, reserves and allocations. For the second quarter of 2026, the Corporation paid a $0.34 per share dividend, compared to $0.33 paid in the first quarter of 2026. On July 16, 2026, the Board of Directors declared a $0.34 per share regular quarterly dividend for the third quarter of 2026, which will be paid on August 26, 2026. This represents a 3.0% increase over the third quarter 2025 dividend.

In December 2025, the Board of Directors authorized a repurchase plan for the repurchase of up to 150,000 shares of the Corporation's $1.00 par value common stock at market prices in open market or privately negotiated transactions over a one-year period. During the first six months of 2026, 10,950 shares were purchased to fund the quarterly dividend reinvestment plan.

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 shown in the table below. In addition, a capital conservation buffer of 2.5% 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 for each respective capital measurement. The Bank's capital conservation buffer at June 30, 2026 was 5.73% compared to the regulatory buffer of 2.5%. Compliance with the capital conservation buffer is required in order to avoid limitations to certain capital distributions and is in addition to the minimum required capital requirements. As of June 30, 2026, the Bank was "well capitalized."

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

In 2026, the federal banking agencies amended the CBLR to decrease the CBLR ratio from 9% to 8% effective July 1, 2026. The revisions to the CBLR also provide for a longer grace period for banks that fall out of compliance with the new ratio to regain compliance. Adoption of the new CBLR may be made on the bank's quarterly call report. The Bank does not expect to adopt the new CBLR ratio.

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 summarizes the regulatory capital requirements and results as of June 30, 2026 and December 31, 2025 for the Corporation and the Bank:

			Regulatory Ratios	
(Dollars in thousands)	**June 30, 2026**	December 31, 2025	**Adequately Capitalized Minimum**	**Well Capitalized Minimum**
Common Equity Tier 1 Risk-based Capital Ratio (1)				
Franklin Financial Services Corporation	**11.93%**	11.45%	N/A	N/A
Farmers & Merchants Trust Company	**12.47%**	12.02%	4.50%	6.50%
Tier 1 Risk-based Capital Ratio (2)				
Franklin Financial Services Corporation	**11.93%**	11.45%	N/A	N/A
Farmers & Merchants Trust Company	**12.47%**	12.02%	6.00%	8.00%
Total Risk-based Capital Ratio (3)				
Franklin Financial Services Corporation	**13.77%**	13.27%	N/A	N/A
Farmers & Merchants Trust Company	**13.73%**	13.27%	8.00%	10.00%
Tier 1 Leverage Ratio (4)				
Franklin Financial Services Corporation	**8.44%**	8.17%	N/A	N/A
Farmers & Merchants Trust Company	**8.83%**	8.57%	4.00%	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

Economy

The Corporation's primary market area includes Franklin, Fulton, Cumberland, Huntingdon, and Dauphin Counties, 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.

Impact of Inflation

The impact of inflation upon financial institutions such as the Corporation differs from its effect upon other commercial enterprises. Unlike many companies, the assets and liabilities of the Corporation are financial in nature. 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 how such changes affect market rates and the Corporation. Although inflation (and inflation expectations) may affect the interest rate environment, it is not possible to measure with any precision the effect of inflation on the Corporation.

Liquidity

The Corporation 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 stresses the measurements 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 Corporation has satisfied its liquidity needs from earnings, repayment of loans and amortizing investment securities, 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 ($81.3 million fair value) are an additional source of readily available liquidity, 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 reciprocal deposits via its Wealth Management service.

The FHLB system has always been a major funding source for the Bank. There are no current indicators that lead the Bank to believe the FHLB would discontinue its lending function or restrict the Bank's ability to borrow. If either of these events would occur, it would have a negative effect on the Bank, and it is 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 June 30, 2026.

(Dollars in thousands)

Liquidity Source	Capacity	Outstanding	Available
Federal Home Loan Bank	$ 691,741	$ 200,000	$ 491,741
Federal Reserve Bank Discount Window	66,210	—	66,210
Correspondent Banks	76,000	—	76,000
Total	$ 833,951	$ 200,000	$ 633,951

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 instruments. Because these instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Corporation.

(Dollars in thousands)	**June 30, 2026**	December 31, 2025
Financial instruments whose contract amounts represent credit risk		
Commercial commitments to extend credit	**$ 302,860**	$ 300,228
Consumer commitments to extend credit (secured)	**143,151**	153,183
Consumer commitments to extend credit (unsecured)	**8,211**	7,083
	$ 454,222	$ 460,494
Standby letters of credit	**$ 38,274**	$ 29,880
ACL - Unfunded Commitments (1)	**$ 1,957**	$ 1,899

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

The Corporation has entered into various contractual obligations to make future payments. These obligations include time deposits, long-term debt, operating leases, deferred compensation and pension payments. These amounts have not changed materially, except as reported, from those reported in the Corporation's 2025 Annual Report on Form 10-K.

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 3. Quantitative and Qualitative Disclosures about Market Risk

There were no material changes in the Corporation's exposure to market risk during the six months ended June 30, 2026. For more information on market risk refer to the Corporation's 2025 Annual Report on Form 10-K.

Item 4. 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 June 30, 2026, 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. There were no changes in the Corporation's internal control over financial reporting during the quarterly period ended June 30, 2026, that have materially affected, or are reasonably likely to materially affect, the 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.

Part II – OTHER INFORMATION

Item 1. Legal Proceedings

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

In management's opinion, there are no legal 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 to the Corporation's financial condition or results of operations. No material proceedings are pending or are known to be threatened or contemplated against us by any governmental authorities.

Item 1A. Risk Factors

There were no material changes in the Corporation's risk factors during the six months ended June 30, 2026. For more information, refer to the Corporation's 2025 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In December 2025, the Board of Directors approved an open market repurchase plan to repurchase 150,000 shares of the Corporation's $1.00 par value common stock at market prices in open market or privately negotiated transactions during 2026. During the three months ended June 30, 2026 there were no shares repurchased under the approved plan and 150,000 shares remain to be repurchased. During the first six months of 2026, 10,950 shares were purchased, outside of the plan, to fund the quarterly dividend reinvestment plan.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

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) during the quarter ended June 30, 2026.

Item 6. Exhibits

Exhibits

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 on Form 8-K, as Exhibit 99.2 with the Commission on January 20, 2026 and incorporated herein by reference).
31.1	Rule 13a – 14(a)/15d-14(a) Certifications – Principal Executive Officer
31.2	Rule 13a – 14(a)/15d-14(a) Certifications – Principal Financial Officer
32.1	Section 1350 Certifications – Principal Executive Officer
32.2	Section 1350 Certifications – Principal Financial Officer
101	Interactive Data File (XBRL)
104	Cover Page Interactive Data File (the cover page XBRL tags are embedded in the XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities 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

August 10, 2026	/s/ Craig W. Best
	Craig W. Best
	Chief Executive Officer
	(Principal Executive Officer)
August 10, 2026	/s/ Mark R. Hollar
	Mark R. Hollar
	Treasurer and Chief Financial Officer
	(Principal Financial and Accounting Officer)