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Franklin Financial
Services Corporation

Franklin Financial Services Corporation (the Corporation) is a holding company with headquarters in Chambersburg, PA. The Corporation's direct subsidiary is Farmers and Merchants Trust Company (the Bank).



F&M Trust is a full-service bank offering investment, trust, commercial and retail services with twenty-four community offices in Franklin, Cumberland, Fulton and Huntingdon Counties.

Consolidated Financial Highlights

(amounts in thousands, except per share)	2007	2006	% increase (decrease)
Performance			
Net income	\$ 9,256	\$ 7,570	22
Return on average equity	12.62%	11.92%	
Return on average assets	1.14%	1.07%	
Return on average tangible equity*	15.41%	13.42%	
Return on average tangible assets*	1.18%	1.09%	
Shareholders' Value (per share)			
Diluted earnings per share	\$ 2.40	\$ 2.10	14
Regular cash dividends paid	1.03	0.99	4
Book value	20.18	19.01	6
Market value	24.95	27.30	(9)
Market value/book value multiple	1.24x	1.44x	
Price earnings multiple	10.40x	13.00x	
Yield on cash dividends paid	4.17%	3.66%	
Safety and Soundness			
Leverage ratio (Tier 1)	8.18%	7.60%	
Risk-based capital ratio (Tier 1)	11.05%	10.59%	
Nonperforming assets/total assets	0.73%	0.29%	
Allowance for loan losses as a percentage of loans	1.29%	1.30%	
Net charge-offs/average loans	0.09%	0.04%	
Balance Sheet Highlights			
Total assets	\$820,371	\$799,333	3
Investment Securities	168,906	192,487	(12)
Loans, net	564,256	521,684	8
Deposits and customer repurchase agreements	674,434	673,705	
Shareholders' equity	77,642	71,614	8
Trust assets under management (market value)	507,920	538,152	(6)

Per share information has been adjusted retroactively to reflect all stock splits and dividends.
*Excludes core deposit intangibles, goodwill and intangible amortization.

Summary of Selected Financial Data

(dollars in thousands, except per share)

	2007	2006	2005	2004	2003
Summary of Operations					
Interest income	\$ 49,487	\$ 40,902	\$ 29,711	\$ 24,809	\$ 24,884
Interest expense	23,796	19,956	12,173	8,819	9,057
Net interest income	25,691	20,946	17,538	15,990	15,827
Provision for loan losses	990	240	426	880	1,695
Net interest income after provision for loan losses	24,701	20,706	17,112	15,110	14,132
Noninterest income	10,179	8,257	6,995	7,093	7,740
Noninterest expense	22,865	19,296	17,058	15,996	14,659
Income before income taxes	12,015	9,667	7,049	6,207	7,213
Income tax	2,759	2,097	937	1,015	1,373
Net income	\$ 9,256	\$ 7,570	\$ 6,112	\$ 5,192	\$ 5,840

Per Common Share

Basic earnings	\$ 2.41	\$ 2.11	\$ 1.82	\$ 1.54	\$ 1.74
Diluted earnings	2.40	2.10	1.81	1.54	1.74
Regular cash dividends paid	1.03	0.99	0.95	0.88	0.82

Balance Sheet Data (end of year)

Total assets	\$820,371	\$799,333	\$621,357	\$563,268	\$549,702
Loans, net	564,256	521,684	391,788	343,130	330,196
Deposits	606,277	595,295	456,799	399,896	372,431
Long-term debt	59,714	38,449	48,546	52,359	56,467
Shareholders' equity	77,642	71,614	55,670	54,643	51,858
Trust assets under management (market value)	507,920	538,152	411,165	410,491	337,796

Performance Measurements

Return on average assets	1.14%	1.07%	1.03%	0.93%	1.09%
Return on average equity	12.62%	11.92%	11.13%	9.77%	11.80%
Return on average tangible assets*	1.18%	1.09%	1.03%	0.93%	1.09%
Return on average tangible equity*	15.41%	13.42%	11.13%	9.77%	11.80%
Dividend payout ratio	42.77%	47.03%	52.31%	56.82%	46.87%
Average equity to average asset ratio	8.98%	8.96%	9.28%	9.47%	9.25%
Efficiency ratio**	61.35%	63.06%	66.39%	66.24%	60.23%
Net interest margin	3.67%	3.45%	3.45%	3.34%	3.45%

*Excludes core deposit intangibles, goodwill and intangible amortization.

**Includes regular and special dividends declared.

A Message to Our Shareholders

Dear Shareholder:

Franklin Financial reported record earnings of \$9,256,000 in 2007, representing a 22.3% increase over net income of \$7,570,000 in 2006 ... a year in which we increased earnings by 23.9%. Diluted earnings per share increased 14.3% from \$2.10 in 2006 to \$2.40 in 2007.

As shareholders, you received a 4% increase in regular cash dividends from \$.99 in 2006 to \$1.03 per share in 2007. Regular cash dividends have grown at an average rate of 6.51% over the past five years.

In spite of our strong performance, the market value of a share of Franklin Financial stock decreased 8.6% from a closing price of \$27.30 at year-end 2006 to \$24.95 at December 31, 2007. Irrespective of individual fundamentals, virtually all stocks in the financial services sector seem to have been "painted with the same brush" by investors ... reflecting the subprime mortgage "meltdown" in 2007 as well as concerns relative to the economy and deteriorating credit-quality issues.

Although we are not pleased with the decline in our market value, the universe of publicly traded banks finished down an average of 21% while the American Banker Index (comprised of 225 banks) was down 26.6% in 2007. The performance of the financial services sector compared unfavorably to the DOW which finished the year up 6.4%, the NASDAQ which climbed 9.8%, and the S&P 500 which closed up 3.5%.

It has been roughly seventeen years since investors last witnessed such a sector specific decline which, at that time, came about when the commercial real estate market unraveled. Right now there is more uncertainty than there is knowledge regarding the ultimate level of losses that will be realized in the financial services

sector. We do know that over \$188 billion in write-downs have been taken by financial institutions globally with about 60% of these losses recorded in the U.S. and 40% abroad. We also know that banks are aggressively increasing their provision for loan losses, which is placing further pressure on their earnings and, potentially, cash dividend payouts. It may take another couple of quarters before investors have a more comprehensive view of the ultimate losses to be incurred and, therefore, before earnings for financial services companies begin to stabilize. Until investors gain confidence that the majority of losses have been quantified, we are not optimistic that financial services stocks will show a significant recovery.

As I have stated emphatically in my quarterly Letter to Shareholders, your company has never engaged in offering “exotic” mortgage products such as certain subprime, option ARM, and non-documentation loans that were so popular in 2005 and 2006. Accordingly, the delinquency in our combined residential mortgage and home equity loan portfolios at December 31, 2007 remained at less than 1%. Further, we have no exposure in our investment portfolio to securities backed by subprime mortgages.

Franklin Financial’s total assets at December 31, 2007 reached \$820,371,000, a 2.6% increase over 2006. Total deposits and repurchase agreements as measured at year-end were flat. Average core deposits (i.e., checking, savings, and interest bearing checking) increased by 2.29%. Our Money Management Account, which is indexed to short-term interest rates, again recorded exceptional growth with a net increase of more than 900 accounts and a 40.7%



Bill Snell
President & CEO

increase in average balances. Overall, average deposits and repurchase agreements increased by 16.3% during 2007.

Net loans grew by 8.2% to \$564,256,000 at year-end 2007. Average loan outstandings increased by 19.5% or \$90,936,000. Our continued focus on commercial loan growth resulted in \$155,287,000 of closed commercial loan transactions which increased the average outstanding balance in this portfolio by \$68,193,000 or 25.7%. Average consumer loan outstandings increased by 27.5% or \$26,181,000 as a result of two effectively promoted home equity loan specials. Residential mortgage closings in 2007 declined 3.9% to \$35,080,000 from \$36,500,000 in 2006. Average residential mortgage outstandings declined by \$3,438,000 or 3.28%, as we continued to hold fewer mortgage originations in our portfolio.

Net interest income increased by 21.6% on a tax equivalent basis to \$27,374,000 from \$22,509,000 in 2006, driven primarily by the growth in average interest earning



assets. Our net interest margin in 2007 increased to 3.67% from 3.45% on a tax equivalent basis which was counter to the trend within our industry.

Our financial condition remains strong as evidenced by a Total Risk-Based Capital Ratio of 12.28% and a Leverage Capital Ratio of 8.18%. These ratios remain above the levels that federal regulators require for an institution to be considered “well capitalized”.

Franklin Financial’s safety and soundness indicators continue to reflect our conservative posture and compare favorably to peers. In 2007, we increased our provision for loan losses by \$750,000 in response to both an increase in the ratio of nonperforming assets/total assets to .73%, as well as exceptional loan growth in order to maintain our Allowance for Loan Losses as a percentage of both total loans and total nonperforming loans at 1.29% and 127.86%. We have observed that many of our peers have permitted the Allowance for Loan Losses to fall below the 1.00% level or even further.



F&M Trust
Management
team (left to right):
Mark Hollar,
Karen Carmack,
Ron Cekovich,
Bill Snell,
Sandy Small,
Allen Rebok,
Mike Kugler,
Olaf Hasse and
Ken Ditzler

Total Assets as dollars in millions



Net Income as dollars in thousands



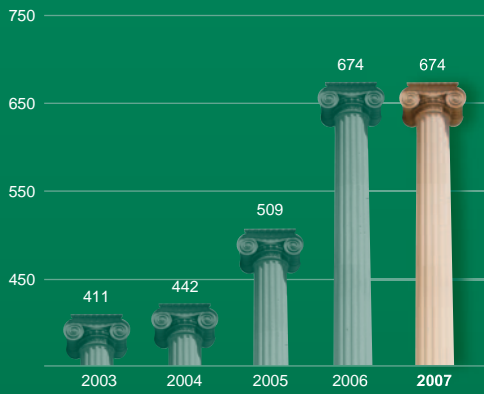
Net Loans as dollars in millions



Regular Cash Dividends Paid as dollars per share



Total Deposits & Repos as dollars in millions



ROE/ROA as percentage values



In last year's Message to Shareholders, I commented that our mid-2006 merger with Fulton Bancshares Corporation had impacted our nonperforming assets/total assets ratio. I am pleased to report that this portfolio's performance to date continues to reinforce the initial determination of our due diligence that many of Fulton County National Bank's loan problems stemmed from improper loan structure as well as ineffective ongoing credit risk management rather than unsound lending practices. The majority of these loans are well-collateralized, and we continue to receive regular payments and/or unscheduled principal reductions.

The market value of assets under management by our Investment & Trust Services Department declined by 5.6% to \$507,920,000 at December 31, 2007 as compared to \$538,152,000 at year-end 2006. As I noted in last year's Shareholder Letter, our 2006 total included a \$41,000,000 short-term deposit into a custody account during December of which \$30,000,000 was paid out prior to year-end 2007. Additionally, two large estates were distributed during the year. Assets under management as reported does not include approximately \$83,000,000 in assets held at third-party brokers at December 31, 2007. Fee income, including revenue generated through the Personal Investment Centers, increased by \$816,000 or 24.6% during 2007, including \$617,000 of nonrecurring fee income relating to the two estates distributed during the year.

Revenues and profitability at Bankers Settlement Services – Capital Region, LLC, a bank-owned title insurance agency based in Harrisburg and affiliated with Investors Title Insurance Company, increased by 6% and 53% respectively. An ongoing initiative to recruit new members in order to increase volume resulted in two additional banks commencing production in 2007. Mortgages originated by F&M Trust and insured by Bankers Settlement Services accounted for approximately 14% of the agency's total net premium revenue in 2007. The lending officers of F&M Trust achieved an overall penetration rate of 57% on residential mortgages closed.

Our investment in BankersRe Insurance Group, SPC (formerly Pennbanks Insurance Company, SPC), a captive insurance company owned by nine Pennsylvania

community banks, generated dividends and fee income of approximately \$115,000 during 2007. Our ownership enables Franklin Financial to participate in premium revenues on higher loan-to-value mortgage originations requiring private mortgage insurance (PMI) as well as fee income derived from Debt Protection Coverage on non-revolving consumer loans. Debt Protection is a program that extinguishes all or part of the debt in the event of death, disability, or involuntary unemployment for a maximum of ten years. As of year-end 2007, our portfolio of insured residential mortgage loans with PMI in force exceeded \$22,500,000 while our portfolio of consumer loans with “protected balances” exceeded \$11,500,000.

Mortgage closings at American Home Bank, N.A. and its affiliates (AHB) increased 6.7% from \$698,000,000 in 2006 to \$745,000,000 in 2007. AHB recorded net income of \$68,000 compared to a loss of \$245,000 in 2006. Franklin Financial accounts for its investment in American Home Bank on the equity method of accounting. Accordingly, approximately 21% of AHB's net income, which corresponds with Franklin Financial's ownership position, is reported as non-interest income. American Home Bank's lending philosophy is similar to ours ... AHB has never engaged in offering “exotic” mortgage products. Accordingly, delinquency at December 31, 2007 was less than 3%.

A number of products and services providing added convenience to our customers and prospective customers will be introduced during 2008. During the first quarter, we converted to “paperless” (book entry) certificates of deposit which will streamline processing, simplify the renewal process, and provide better documentation. Customers receive a paper receipt, but will no longer need to present the original document or visit the same office in order to redeem their certificate. Customers also gain the ability to add funds during the “grace period” without rewriting the certificate. We also provided customers with online access to check images, including the ability to view both checks paid and deposit tickets, as well as the capability to complete an application to open a deposit account online.



Chambersburg Area Development Corporation

When a Louisiana-based company purchased Hirschmann Automation and Control (HAC) in Chambersburg, they determined the company needed a larger workforce and additional workspace. **Dave Sciamanna** (left), Executive Director of the Chambersburg Area Development Corporation (CADC) asked **Ken Brookens** (right), AVP/Commercial Services, at F&M Trust to help. Ken prepared the best financing package to fit CADC and HAC's needs. The new facility not only meets the company's immediate needs, but is flexible enough to allow for future growth.



Moe's Southwest Grill – Chambersburg, PA

Having worked for a global pizza franchise for twelve years, and then leading his own construction company for another fifteen, **Troy King** (right) decided he was ready for more. With guidance and financing from **Phil Pantano** (left), Commercial Services Relationship Manager with F&M Trust, Troy and his brother opened a Moe's Southwest Grill franchise in Chambersburg in September 2007. It has become a favorite destination for families and sports teams around Franklin County. In fact, Phil is already helping Troy open his second Moe's location (in Maryland) by July 2008. At this pace, don't be surprised to hear of a third one soon, too!

During the fourth quarter, we entered into a brokerage agreement with American Home Bank, N.A. in order to broaden our fixed-rate residential mortgage product offerings and enhance the competitiveness of our pricing. We are encouraged with the volume of mortgage originations in the early months of 2008. Later this year, we also anticipate adding the capability of accepting residential mortgage applications online.

Our small business initiative continues to gain momentum. In December, we announced a partnership between F&M Trust and the Small Business Development Centers at Shippensburg University and St. Francis University to present educational programs and workshops for aspiring, as well as existing, small business owners throughout our marketplace. The eighteen Small Business Development Centers in Pennsylvania are supported with funding and other resources from the Commonwealth of Pennsylvania's Department of Community & Economic Development and the U.S. Small Business Administration. Small business owners who receive low-cost assistance from a Small Business Development Center (SBDC) survive and grow, on average, at rates far greater than small business owners who do not. Under the terms of our partnership agreements, F&M Trust will be the exclusive sponsor of "First Step" and "Business Planning" workshops to be conducted by the SBDCs at Shippensburg University and St. Francis University during 2008, plus other seminars on special topics. F&M Trust's Small Business Relationship Managers will participate in each workshop, presenting a segment focused on financing options. The Shippensburg University SBDC will conduct eighteen "First Step" and "Business Planning" workshops in



After years of styling hair as an employee, **Tessie Guyer** decided that it was time to strike out and start her own business. By attending seminars conducted by the Small Business Development Center at Shippensburg University and working with F&M Trust's Small Business Relationship Managers, she made all the proper plans, smartly avoiding common start-up pitfalls. The **Touch Of Paradise Salon & Spa** recently opened to realize a great early success.

Franklin and Cumberland Counties while the St. Francis University SBDC will conduct six of these workshops in Fulton and Huntingdon Counties. We believe that this initiative to provide entrepreneurs with education, information, and tools to build and sustain successful businesses will directly benefit our local economy while providing F&M Trust with an opportunity to increase our penetration of the small business market.



When the **Kelso Cornelius Funeral Home** was ready to upgrade exterior lighting and improve the entrance at their **McConnellsburg** location, **Brett Cornelius** (left), Funeral Director, walked down the street to talk with **Don Trego** (right), AVP/Small Business Relationship Manager, about financing for the planned improvements. It was important to Brett that, as a community-based business, he worked with a local bank that works hard to support businesses like his.

In January of 2008, F&M Trust was approved as a designated lender for the loan guaranty programs offered by the U.S. Small Business Administration (SBA). These programs will assist us in supporting existing or start-up businesses in the early stages of their development. Lines of credit and term loans are available to small businesses meeting the eligibility requirements for an SBA guaranty for the purchase of real estate or machinery and equipment as well as for working capital.

We also introduced two enhancements to Better Business Checking, a package account targeted at small businesses: Overdraft Protection, which utilizes an automated transfer from a line of credit; and Better Business Checking Payroll, a no- minimum-balance account that can be linked to sweep from the customer's primary Better Business Checking account as payroll checks are presented. Remote Deposit Capture, to be rolled out later this year, will save businesses of all sizes both time and money. Customers will be able to scan their checks and transmit them to a secure website. The items are then processed and automatically credited to the business's bank account, eliminating the need to travel to the bank to make the deposit.

Mains Dairy – Newville, PA

When **Dan Mains** (left), a dairy farm owner, wanted to buy a neighboring property to expand his 850-cow dairy operation, **Brian Weikert** (right), VP/Commercial Services at F&M Trust, was able to help make the deal happen in less than a month. As a businessowner, Dan really appreciates the personal assistance he gets from F&M Trust as well as smart financial products, like the Sweep Account, that makes his money work better.



Joe & Nina Yuhas – Mont Alto, PA

After 35 years of teaching in the Washington, DC area, **Joe and Nina Yuhas** (left, center) decided to retire to southern Franklin County. They came to F&M Trust for a new home construction loan and were so pleased with the service and assistance they received from **Renee Preso** (right), AVP/Manager, and the entire Mont Alto office, they moved all of their financial accounts to F&M Trust.



During April, our twenty-fourth community office opened at Carlisle Crossing, between York and Trindle Roads in Cumberland County. This shopping center, which opened in 2006, includes several “draws” such as Target, Kohl’s, Pier One, PetSmart, Starbucks, Old Navy and Red Robin. We also constructed a new community office to replace our existing facility at Marion, which “reopened” in September. New ATM’s were opened at the Penn National Golf Course Clubhouse and the Carlisle Central Farmers Market.

An additional investment to expand and upgrade our community office network is planned during 2008. Another ATM will be opened at Northgate Commons on the Northfield Campus of Menno Haven during the first quarter. Extensive renovations to expand the lobby and reconfigure the drive-up at our Orchard Park Community Office are planned for the second quarter. Our twenty-fifth community office at the corner of Norland Avenue and Parkwood Drive in Chambersburg is now scheduled to open in the third quarter, and renovations to our Philadelphia Avenue Community Office will also occur in the third quarter.

As we start what will undoubtedly be a very challenging year, Franklin Financial is positioned for continued growth and performance. Your interest and support as a Franklin Financial shareholder is sincerely appreciated.

Sincerely,



William E. Snell, Jr.
President & CEO



Brian Wise (right) has been banking with F&M Trust for most of his life. The people who help him aren’t just bank employees, they’re his friends and neighbors. So it was only natural when it was time to begin planning for his retirement he contacted **Denny Wilson** (left), Investment and Trust Services Officer. F&M Trust also has the asset management experience Brian prefers – the investment and trust experts manage more than \$500 million in total assets.

FFSC Board of Directors



Franklin Financial
Services Corporation



Charles S. Bender II
Retired –
F&M Trust Executive
Vice President



Martin R. Brown
President –
M.R. Brown Funeral
Home, Inc.



G. Warren Elliott
Regional Representative –
General Code Publishers;
Former Franklin County
Commissioner



Donald A. Fry
President –
Cumberland Valley Rental
and Towne Cleaners –
ANDOCO, Inc.



Allan E. Jennings, Jr.
President –
Jennings Chevrolet
Oldsmobile Cadillac, Inc.



Stanley J. Kerlin, Esq.
Attorney –
Law Office of
Stanley J. Kerlin



H. Huber McCleary
Secretary –
McCleary Oil
Company, Inc.



Jeryl C. Miller
Vice President and
Secretary –
Charles W. Karper, Inc.



Stephen E. Patterson, Esq.
Shareholder –
Patterson, Kiersz and
Murphy, P.C.



Charles M. Sioberg
Chairman of the Board
Vice President –
Martin & Martin, Inc.



William E. Snell, Jr.
President and
Chief Executive Officer



Kurt E. Suter
President –
Carlisle Mobile Homes, Inc.,
and Eastern Motor Inns



Martha B. Walker, Esq.
Attorney –
Walker, Connor and
Johnson, LLC

FFSC Officers

Charles M. Sioberg
Chairman of the Board

Mark R. Hollar
Treasurer and Chief Financial Officer

Joyce A. Riley
Assistant Corporate Secretary

William E. Snell, Jr.
President and Chief Executive Officer

Catherine C. Angle
Corporate Secretary



F&M Trust Company Officers

Management

William E. Snell, Jr.
President and Chief Executive Officer

Mark R. Hollar
Senior Vice President
Chief Financial Officer,
Controller and Treasurer

Karen C. Carmack
Senior Vice President
Human Resources Manager
Affirmative Action and HIPPA
Privacy Officer

Ronald L. Cekovich
Senior Vice President
Technology Services Manager

Kenneth C. Ditzler
Senior Vice President
Marketing and Corporate
Communications Manager

Michael E. Kugler
Senior Vice President
Commercial Service Market Manager

Allen C. Rebok
Senior Vice President
Investment & Trust Services Manager

Sandra G. Small, Esq.
Senior Vice President
Risk Management Officer

Olaf R. Hasse
Vice President
Retail Services Market Manager

Commercial Services

Dianne L. Cornman, CTP
Vice President –
Cash Management Specialist

Debra K. Michael
Vice President

Brian E. Weikert
Vice President

Kenneth W. Brookens
Assistant Vice President

Philip A. Pantano
Commercial Services
Relationship Manager

Kathleen M. Bloss
Credit Department Manager

Retail Services

L. Kay Estep
Assistant Vice President
GO Club Coordinator

CHAMBERSBURG MARKET OFFICES

Patricia A. Hanks
Assistant Vice President
Chambersburg Market Manager

David S. Campbell
Small Business Relationship Manager

Lincoln Way East Office

Kim S. McKenrick
Financial Services Officer and
Manager

Marlana K. Snider
Assistant Financial Services Officer
and Assistant Manager

Memorial Square Office

Summer Franzoni
Assistant Vice President and Manager

Dana L. Kaiser
Financial Services Officer and
Assistant Manager

Amanda A. Kegerreis
Assistant Financial Services Officer

Pamela J. Kolsun
Assistant Financial Services Officer

Dennis R. Love
Assistant Financial Services Officer

West Side Office

N. Joy Weller
Vice President and Manager

Philadelphia Avenue Office

Phyllis J. Amsley-Drawbaugh
Assistant Vice President
and Manager

Penn Hall and Menno Village Offices

Bonita C. Yocum
Assistant Vice President
and Manager

Orchard Park Office

Antonia L. Diffenderfer
Assistant Vice President and Manager

Christina L. Yoder
Assistant Financial Services Officer
and Assistant Manager

St. Thomas Office

Kimberly M. Smith
Financial Services Officer and
Manager

F&M Trust Company Officers (continued)

SOUTHERN FRANKLIN COUNTY MARKET OFFICES

Kathy J. Miller

Assistant Vice President
Southern Franklin County
Market Manager

Lynn A. Waite

Small Business Relationship Manager

Greencastle and Marion Offices

Karen S. Showalter

Assistant Vice President and Manager

Deborah K. Whaley

Assistant Financial Services Officer

Vicky L. Carson

Assistant Financial Services Officer
and Assistant Manager

Mont Alto Office

Renee L. Preso

Assistant Vice President and Manager

Linda K. Stottlemeyer

Financial Services Officer and
Assistant Manager

Waynesboro Office

Karen E. Davis

Assistant Vice President and Manager

Chastity L. Wantz

Assistant Financial Services Officer
and Assistant Manager

CUMBERLAND COUNTY MARKET OFFICES

Vickie L. Broughton

Assistant Vice President
Cumberland County Market Manager

Carlisle Plaza, Boiling Springs,
Carlisle Crossing and Hanover
Street Offices

David R. Winters

Assistant Vice President and Manager

Kevin M. Stoner

Financial Services Officer and
Assistant Manager

Kathleen M. Grant

Assistant Financial Services Officer
and Assistant Manager

Newville Office

Ellen L. Ile

Financial Services Officer and
Manager

Ritner Highway Office

Rachel L. Freeburn

Financial Services Officer and
Manager

Shippensburg Office

Barbara A. Hoover

Financial Services Officer and
Manager

FULTON & HUNTINGDON COUNTY MARKET OFFICES

Paul M. Johnson

Assistant Vice President
Fulton County Market Manager

Donald L. Trego

Assistant Vice President
Small Business Relationship Manager

McConnellsburg Office

Mary E. Wright

Financial Services Officer
and Manager

Penns Village Office

Penny J. Koser

Financial Services Officer
and Manager

Warfordsburg Office

B. Jay True

Financial Services Officer
and Manager

Consumer Lending Services

Susan E. Michael

Vice President

Penni L. Strait

Dealer Center Relationship Manager

Investment & Trust Services

Ronald R. Froeschle, QPA, QKA

Vice President
Employee Benefits Officer

Warren M. Hurt

Vice President
Senior Investment Portfolio Manager

John D. Parson

Vice President
Investment & Trust Services Officer

Thomas L. Peterson, LUTCF

Vice President
Market Manager

Charles R. Porter

Vice President
Business Development

James P. Probst

Vice President
Investment & Trust Services Officer

F&M Trust Company Officers (continued)

Dennis L. Wilson

Vice President
Investment & Trust Services Officer

Judy V. Shade

Assistant Vice President
Investment & Trust Services Officer

Diana L. Sponseller

Assistant Vice President
Investment & Trust Services Officer

Heather C. Etter

Estate Administration Officer

Mark P. Bernier

Investment Portfolio Manager

Robin L. Murray

Trust Operations Manager

James R. Ifert II

Assistant Investment and
Trust Services Officer
Personal Investment Counselor

Avis M. Polk, CFP

Assistant Investment and
Trust Services Officer
Personal Investment Counselor

Roderick C. Salter

Assistant Investment and
Trust Services Officer
Personal Investment Counselor

Gerald J. Slothower, Sr.

Assistant Investment and
Trust Services Officer
Personal Investment Counselor

Jack L. Turner

Assistant Investment and
Trust Services Officer
Personal Investment Counselor

Marketing

Melissa D. Miller

Marketing Officer

Facilities

Barry L. Shetter

Assistant Vice President
Facilities Manager

Finance & Control

Kim A. Diehl

Financial Analyst

Amy B. Herrold

Assistant Controller

Corporate

Catherine C. Angle

Corporate Secretary

Joyce A. Riley

Assistant Corporate Secretary

Credit Administration Division

Lorie M. Heckman

Assistant Vice President
Bank Secrecy Act, Compliance
and Security Officer

Linda K. Mowen

Assistant Vice President
Credit Recovery Manager

John W. Olander

Assistant Compliance Officer,

Mary F. Cramer

Bank Secrecy Act and OFAC Analyst

Diana A. Crouse

Loan Servicing Manager

Peggy J. Elder

Documentation Review Officer

Rachel Jennings

Assistant Documentation
Review Officer

Janet E. Stamper

Assistant Documentation
Review Officer

Technology Services Division

Barry R. Walter

Vice President

Matthew C. Clark

Assistant Technology Services Officer

Patricia R. Ganoe

Assistant Vice President
Deposit Operations Manager

Stacey A. Stenger

Data Operations Manager

General Contact Information

FFSC / F&M Trust Headquarters

Local: 717-264-6116
Toll-free: 888-264-6116

Freedom Access Center

(telephone banking service)
Local: 717-261-3662
Toll-Free: 888-261-3662

24-Hour Online Access

www.fmtrustonline.com

Community Office Locations

Chambersburg Area

Memorial Square
20 South Main Street,
Chambersburg
717-264-6116

Lincoln Way East
1712 Lincoln Way East,
Chambersburg
717-264-9414

West Side
1100 Lincoln Way West,
Chambersburg
717-263-9168

Orchard Park
841 Wayne Avenue,
Chambersburg
717-263-1801

Philadelphia Avenue
2405 Philadelphia Avenue,
Chambersburg
717-264-5122

Penn Hall
1425 Philadelphia Avenue,
Chambersburg
717-261-3660

Menno Village
2075 Scotland Avenue,
Chambersburg
717-261-3697

St. Thomas
6962 Lincoln Way West,
St. Thomas
717-369-3240

Southern Franklin County

Greencastle
518 N. Antrim Way,
Greencastle
717-597-2384

Marion
5293 Main Street,
Marion
717-375-2200

Mont Alto
8 Park Street,
Mont Alto
717-749-3161

Waynesboro
200 East Main Street,
Waynesboro
717-762-2188

Cumberland County

Boiling Springs
3 East First Street,
Boiling Springs
717-241-4131

Newville
9 West Big Spring Avenue,
Newville
717-776-2240

Shippensburg
13 Shippensburg
Shopping Center
717-530-2100

Ritner Highway
1901 Ritner Highway,
Carlisle
717-960-1400

Hanover Street
14 North Hanover Street,
Carlisle
717-249-1331

Carlisle Plaza
800 East High Street,
Carlisle
717-243-0526

Carlisle Crossing
214A Westminster Drive,
Carlisle
717-243-2215

Fulton and Huntingdon Counties

McConnellsburg
100 Lincoln Way East,
McConnellsburg
717-485-3144

Penns Village
182 Buchanan Trail,
McConnellsburg
717-485-3167

Hustontown
7781 Waterfall Road,
Hustontown
717-987-3193


Warfordsburg
560 Great Cove Road,
Warfordsburg
717-294-3288


Orbisonia
18810 Sandy Ridge Station,
Orbisonia
814-447-3104


Star®/Cirrus® ATM Locations


 Indicates drive-up access

Chambersburg Area


Downtown Drive-Up 
150 Lincoln Way East,
Chambersburg

Lincoln Way East 
1712 Lincoln Way East,
Chambersburg

West Side 
1100 Lincoln Way West,
Chambersburg


Orchard Park 
841 Wayne Avenue,
Chambersburg

Philadelphia Avenue 
2405 Philadelphia Avenue,
Chambersburg

Norland Avenue 
870 Norland Avenue,
Chambersburg

Penn Hall
1425 Philadelphia Avenue,
Chambersburg


Menno Village
2075 Scotland Avenue,
Chambersburg

St. Thomas 
6962 Lincoln Way West,
St. Thomas

Fayetteville 
4025 Lincoln Way East,
Fayetteville


Penn National Clubhouse
3720 Clubhouse Drive,
Fayetteville

Southern Franklin County


Greencastle 
518 North Antrim Way,
Greencastle

Marion 
5293 Main Street,
Marion

Mont Alto 
8 Park Street,
Mont Alto


Waynesboro 
200 East Main Street,
Waynesboro


Waynesboro Market Place 
11123 Buchanan Trail East,
Waynesboro


Zullinger 
4884 Buchanan Trail East,
Zullinger

Cumberland County

Boiling Springs
3 East First Street,
Boiling Springs

Newville 
9 West Big Spring Avenue,
Newville


Shippensburg 
13 Shippensburg Shopping
Center

Ritner Highway 
1901 Ritner Highway,
Carlisle

Hanover Street
14 North Hanover Street,
Carlisle


Carlisle Farmers Market
117 North Hanover Street,
Carlisle

Carlisle Plaza
800 East High Street,
Carlisle


Carlisle Plaza Drive-Up 
700 East High Street,
Carlisle


Carlisle Crossing 
214A Westminster Drive,
Carlisle


Fulton and Huntingdon Counties

McConnellsburg 
100 Lincoln Way East,
McConnellsburg

Penns Village 
182 Buchanan Trail,
McConnellsburg

Hustontown 
7781 Waterfall Road,
Hustontown

Warfordsburg 
560 Great Cove Road,
Warfordsburg

Orbisonia 
18810 Sandy Ridge Station,
Orbisonia

FFSC Shareholders' Information

Dividend Reinvestment Plan

Franklin Financial Services Corporation offers a dividend reinvestment program whereby shareholders with stock registered in their own names may reinvest their dividends in additional shares of the Corporation. Information concerning this optional program is available by contacting the Corporate Secretary at 20 South Main Street, PO Box 6010, Chambersburg, PA 17201-6010, telephone 717-264-6116.

Dividend Direct Deposit Program

Franklin Financial Services Corporation offers a dividend direct deposit program whereby shareholders with stock registered in their own names may choose to have their dividends deposited directly into the bank account of their choice on the dividend payment date. Information concerning this optional program is available by contacting the Corporate Secretary at 20 South Main Street, PO Box 6010, Chambersburg, PA 17201-6010, telephone 717-264-6116.

Annual Meeting

The Annual Shareholders' Meeting will be held Tuesday, April 29, 2008 at the Family Traditions Lighthouse Restaurant, 4301 Philadelphia Avenue, Chambersburg. The Business Meeting will begin at 10:30 a.m. and will be followed by a luncheon.

Web site:

www.franklinfin.com

Stock Information

The following brokers are registered as market makers of Franklin Financial Services Corporation's common stock:

Boenning & Scattergood, Inc.

4 Tower Bridge
200 Bar Harbor Drive, Suite 300
West Conshohocken, PA 19428
800-883-1212

Ferris Baker Watts

113 S. Potomac Street
Hagerstown, MD 21740
800-344-4413

Morgan Keegan & Co., Inc.

3050 Peachtree Road, NW, Suite 704
Atlanta, GA 30305
866-353-7522

RBC Wealth Management

2101 Oregon Pike
Lancaster, PA 17601
800-604-1471

Ryan, Beck & Co.

20 Ash Street, Suite 400
Conshohocken, PA 19428
800-223-6807

Registrar and Transfer Agent:

The registrar and transfer agent for Franklin Financial Services Corporation is Fulton Financial Advisors, N.A., One Penn Square, PO Box 4887, Lancaster, PA 17602, telephone 717-291-2546.

Market and Dividend Information

The Corporation's common stock is not actively traded in the over-the-counter market. The Corporation's stock is listed under the symbol "FRAF" on the O.T.C. Electronic Bulletin Board, an automated quotation service. Current price information is available from account executives at most brokerage firms as well as the registered market makers of Franklin Financial Services Corporation common stock as listed above under Shareholders' Information.

There were 2,141 shareholders of record as of December 31, 2007. The range of high and low bid prices, as reported by local sources is shown below for the years 2007 and 2006. Also shown are the regular quarterly cash dividends paid for the same years.

2007 Per Share

	High	Low	Cash Dividends Paid
First quarter	\$27.23	\$26.93	\$0.25
Second quarter	27.23	26.74	0.26
Third quarter	27.08	24.60	0.26
Fourth quarter	25.80	24.25	0.26

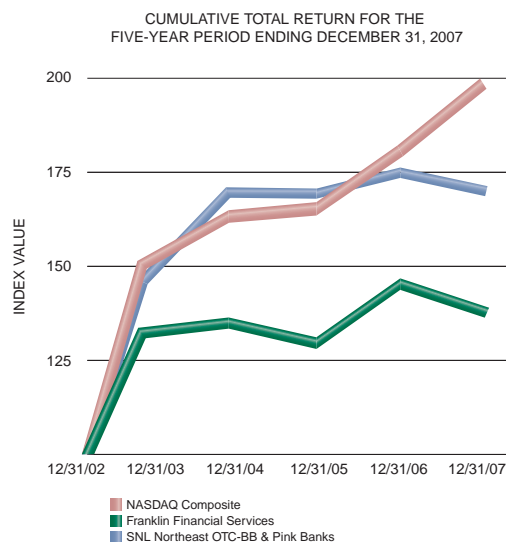
2006 Per Share

	High	Low	Cash Dividends Paid
First quarter	\$26.00	\$24.40	\$0.24
Second quarter	25.75	25.00	0.25
Third quarter	26.25	25.15	0.25
Fourth quarter	27.75	26.00	0.25

Total Return Performance Graph

The Securities and Exchange Commission requires that a publicly held company include in its Annual Report a stock performance graph comparing its five-year cumulative total return to shareholders with the returns generated by an industry-specific index (or peer group index) and with the return generated by a broad market index.

The following graph compares the cumulative total return to shareholders of Franklin Financial with the NASDAQ – Total U.S. Index (a broad market index prepared by the Center for Research in Security Prices at the University of Chicago Graduate School of Business) and with the Northeast OTC-BB and Pink Banks Index (an industry-specific index prepared by SNL Financial LC) for the five year period ended December 31, 2007, in each case assuming an initial investment of \$100 on December 31, 2002 and the reinvestment of all dividends.



Index	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
SNL Northeast OTC-BB & Pink Banks	100.00	145.85	169.92	169.40	175.06	170.48
Franklin Financial Services Corp.	100.00	132.26	134.88	129.67	145.64	138.42
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60