

2008 ANNUAL REPORT



Franklin
Financial
Services
Corporation

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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-five community offices in Franklin, Cumberland, Fulton and Huntingdon Counties.

Consolidated Financial Highlights

(dollars in thousands, except per share)	2008	2007	% increase (decrease)
Performance			
Net income	\$ 8,595	\$ 9,256	(7)
Return on average equity	10.99%	12.62%	
Return on average assets	1.01%	1.14%	
Return on average tangible equity*	13.19%	15.41%	
Return on average tangible assets*	1.05%	1.18%	
Shareholders' Value (per share)			
Diluted earnings per share	\$ 2.24	\$ 2.40	(7)
Regular cash dividends paid	1.07	1.03	4
Book value	19.10	20.18	(5)
Market value	18.25	24.95	(27)
Market value/book value multiple	0.96	1.24	
Price earnings multiple	8.15	10.40	
Yield on cash dividends paid	5.92%	4.17%	
Safety and Soundness			
Leverage ratio (Tier 1)	7.84%	8.18%	
Risk-based capital ratio (Tier 1)	11.02%	12.28%	
Nonperforming assets/total assets	0.44%	0.73%	
Allowance for loan losses as a percentage of loans	1.09%	1.29%	
Net charge-offs/average loans	0.19%	0.09%	
Balance Sheet Highlights			
Total assets	\$902,460	\$820,371	10
Investment Securities	154,041	168,906	(9)
Loans, net	668,860	564,256	19
Deposits and customer repurchase agreements	691,653	674,434	3
Shareholders' equity	73,059	77,642	(6)
Trust assets under management (market value)	497,215	507,920	(2)

Per share information has been adjusted retroactively to reflect all stock splits and dividends.

*Excludes core deposit intangible assets, goodwill and intangible asset amortization.

Summary of Selected Financial Data

(dollars in thousands, except per share)

Summary of Operations

	2008	2007	2006	2005	2004
Interest income	\$ 46,156	\$ 49,487	\$ 40,902	\$ 29,711	\$ 24,809
Interest expense	16,037	23,796	19,956	12,173	8,819
Net interest income	30,119	25,691	20,946	17,538	15,990
Provision for loan losses	1,193	990	240	426	880
Net interest income after provision for loan losses	28,926	24,701	20,706	17,112	15,110
Noninterest income	6,538	10,107	8,257	6,995	7,093
Noninterest expense	23,189	22,793	19,296	17,058	15,996
Income before income taxes	12,275	12,015	9,667	7,049	6,207
Income tax	3,680	2,759	2,097	937	1,015
Net income	\$ 8,595	\$ 9,256	\$ 7,570	\$ 6,112	\$ 5,192

Per Common Share

Basic earnings	\$ 2.24	\$ 2.41	\$ 2.11	\$ 1.82	\$ 1.54
Diluted earnings	2.24	2.40	2.10	1.81	1.54
Regular cash dividends paid	1.07	1.03	0.99	0.95	0.88
Market value	18.25	24.95	27.30	25.25	27.25

Balance Sheet Data (end of year)

Total assets	\$ 902,460	\$820,371	\$799,333	\$621,357	\$563,268
Loans, net	668,860	564,256	521,684	391,788	343,130
Deposits	627,341	606,277	595,295	456,799	399,896
Long-term debt	106,141	59,714	38,449	48,546	52,359
Shareholders' equity	73,059	77,642	71,614	55,670	54,643
Trust assets under management (market value)	497,215	507,920	538,152	411,165	410,491

Performance Measurements

Return on average assets	1.01%	1.14%	1.07%	1.03%	0.93%
Return on average equity	10.99%	12.62%	11.92%	11.13%	9.77%
Return on average tangible assets*	1.05%	1.18%	1.09%	1.03%	0.93%
Return on average tangible equity*	13.19%	15.41%	13.42%	11.13%	9.77%
Dividend payout ratio	47.66%	42.77%	47.03%	52.31%	56.82%
Average equity to average asset ratio	9.18%	8.98%	8.96%	9.28%	9.47%
Efficiency ratio	61.25%	61.35%	63.06%	66.39%	66.24%
Net interest margin	4.03%	3.67%	3.45%	3.45%	3.34%

*Excludes core deposit intangible assets, goodwill and intangible asset amortization.

A Message to Our Shareholders

Dear Shareholder:

Franklin Financial reported earnings of \$8,595,000 in 2008 representing a 7.1% decrease from our record net income of \$9,256,000 in 2007. Diluted earnings per share decreased from \$2.40 per share in 2007 to \$2.24 per share in 2008.

By many traditional performance measurements including growth in loans outstanding and net interest income, loan quality, as well as net interest margin, your company again produced excellent results in a very difficult environment. However, we are in the midst of what has been described as “the second worst deterioration of credit, liquidity, and asset valuation the world has ever seen” and Franklin Financial was not immune from the impact of declining interest rates and falling stock prices.

Four non-core charges negated our otherwise strong performance in 2008:

- A Mortgage Servicing Rights impairment charge in the amount of \$500,000 as of December 31, 2008. Mortgage Servicing Rights, which represent the future value of servicing income on mortgages sold in the secondary market, are capitalized as an asset on our balance sheet and subsequently amortized over the life of the associated loans sold. Capitalized Mortgage Servicing Rights are then evaluated at the end of each quarter for potential impairment based upon the probability that the underlying loans will be prepaid through refinancing as interest rates fall.
- A loss in the amount of \$707,000 on a Washington Mutual (WAMU) bond. Prior to the end of the third quarter, we elected to sell this bond at a loss in light of WAMU's rapidly deteriorating financial condition. Subsequent to this sale, WAMU filed bankruptcy.
- Other Than Temporarily Impaired charges throughout the year in the amount of \$888,000 on financial services stocks in our investment portfolio.
- A valuation adjustment in the amount of \$1,205,000 to the cost of First Chester County Corporation common stock (FCEC) received pursuant to the acquisition of American Home Bank, N.A. (AHB) by FCEC which was announced on September 19, 2008 and closed on December 31, 2008. Subject to the terms of the Definitive Merger Agreement, AHB shareholders could elect to receive either .7000 shares of FCEC common stock or cash equal to \$11.00 per share of AHB common stock. Shareholder elections were subject to allocation procedures intended to ensure that approximately 90% of the consideration to be paid by FCEC would be in the form of common stock and approximately 10% of the consideration would be in cash.

As of the September 19th announcement date of this transaction, the market value of a share of FCEC common stock was \$15.25 which equated to \$10.675 per common share of AHB when adjusted for the .7000 exchange ratio. This pricing held relatively constant until early November, at which time the market value of many community banks, including FCEC, began to decline further. As of December 31, 2008, the closing date for the acquisition of AHB by FCEC, the market value of a common share of FCEC was \$10.00 which equated to \$7.00 per common share of AHB when adjusted for the .7000 exchange ratio.

In accordance with the current Financial Accounting Standards Board guidance, we recorded a \$1,205,000 valuation adjustment at December 31, 2008 on 209,062 shares of FCEC common stock received for 298,660 AHB common shares as a result of the merger transaction to their "fair value" of \$10.00 per share (i.e. \$7.00 per share of AHB). We also received \$639,000 for 58,048 shares of AHB common stock exchanged for \$11.00 in cash as of the same date.

The total impact of these four non-core items was \$3,300,000 on a pretax basis. Excluding these items, Franklin Financial's Net Income would have increased by 22.8% on a comparable basis from 2007 to 2008.

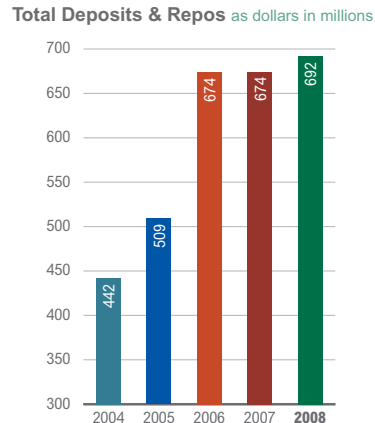
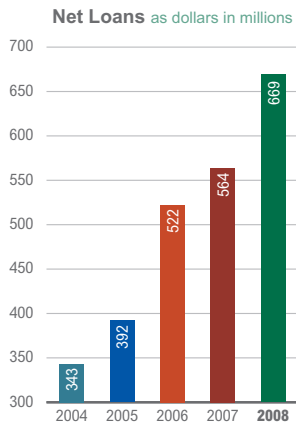
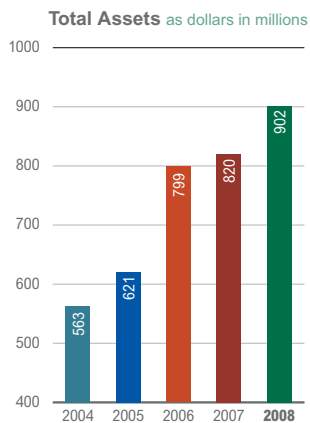
As a shareholder, you received a 3.9% increase in regular cash dividends from \$1.03 in 2007 to \$1.07 in 2008. Regular cash dividends have grown at an average rate of 5.6% over the past five years.

The market value of a share of Franklin Financial stock decreased 26.9% from a closing price of \$24.95 at year-end 2007 to \$18.25 at December 31, 2008. Although the vast majority of community banks continue to be among the safest and strongest financial institutions in our nation's financial system, we are not optimistic that financial services stocks will show a significant recovery until investors regain confidence in the solvency of our 25 largest banks.

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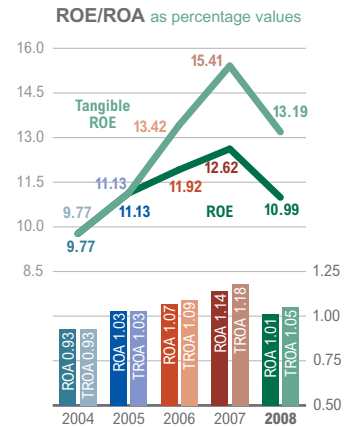
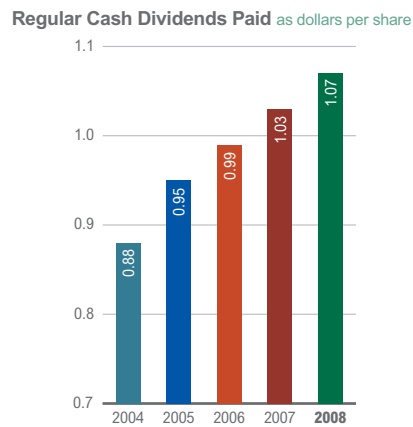
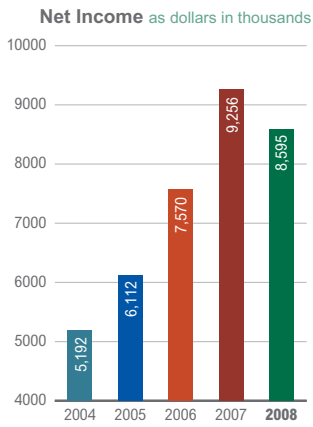


Bill Snell
President & CEO



Franklin Financial's total assets reached \$902,460,000 at December 31, 2008 representing a 10% increase over 2007. Net loans grew by 18.5% on a year-over-year basis. Average loan outstandings increased by \$64,105,000 or 11.5% in 2008. Our continued focus on commercial loan growth resulted in \$246,820,000 of closed commercial loan transactions which increased the average outstanding balance in the portfolio by \$70,562,000 or 21.2%. Average consumer loan outstandings increased 9.2% to \$132,571,000 as a result of two home equity loan promotions. Residential mortgage closings in 2008 declined dramatically to \$27,800,000 from \$35,080,000 in 2007. Average residential mortgage outstandings declined by 17.4% or \$17,667,000 as we continue to hold fewer mortgage originations in our portfolio.





Deposit growth in 2008 was negatively impacted by both the significant decline in short-term rates throughout the year as well as a “national rate war” among financial institutions for deposit funding. This intense competition was exacerbated by those financial institutions that had lost access to brokered deposits and other wholesale funding as a result of a change in their “well-capitalized” regulatory status.

Total deposits and repurchase agreements as measured at year-end increased 2.6% to \$691,653,000. Average core deposits (i.e. checking, savings, and interest bearing checking) increased 1.5% while we experienced some shift in depositor funds from the Money Management Account into higher yielding Certificates of Deposit. In lieu of

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





Allen Distribution—Carlisle, PA

With 2.5 million square feet of storage space and state-of-the-art logistic services, Carlisle-based Allen Distribution continues to produce, package and deliver “reliability” to their clients. That’s why **Gary** (center left) and **Ryan Heishman** (center right) prefer to work with **Dianne Cornman CTP**, VP/Cash Management Specialist (far left) and **Brian Weikert**, VP/Commercial Services, Cumberland County Region of F&M Trust (far right). Allen Distribution relies on the instant flexibility of Franklin Busine\$\$Link, eDeposit, fast financing decisions, and local convenience. And best of all, F&M Trust’s great customer service frees up the Heishmans to attend to their own clients better. That’s what a solid financial partnership is all about.

competing against exorbitantly high Certificate of Deposit rates for maturities of less than one year, we opted to utilize lower cost Federal Home Loan Bank term borrowings, which increased from \$59,714,000 at year-end 2007 to \$106,141,000 at December 31, 2008.

Net interest income increased by 15% on a tax equivalent basis to \$31,488,000 from \$27,374,000 in 2007, driven by both the growth in average interest earning assets as well as an increase from 3.67% to 4.03% on a tax equivalent basis in our net interest margin. The growth in our net interest margin was counter to the trend within our industry.

Our financial condition remains strong as evidenced by a Total Risk-Based Capital Ratio of 11.02% and a Leverage Capital Ratio of 7.84%. These ratios remain above the levels that federal regulators require for an institution to be considered “well capitalized”.

Our Tangible Capital Ratio, which measures Total Equity net of Accumulated Other Comprehensive Income, Goodwill and Intangible Assets as a percentage of Total Assets excluding Goodwill and Intangible Assets, stands at 7.72% at year-end. This ratio has increasingly become the focus of investors seeking to measure true capital adequacy.

Franklin Financial’s safety and soundness indicators continue to compare favorably to peers, reflecting our conservative posture. In 2008, we increased our provision for loan losses by \$203,000 in response to both an increase in net charge-offs from .09% to .19% as well as our exceptional loan growth. The ratio of nonperforming assets/total assets declined from .73% to .44% at year-end 2008 while our Allowance for Loan Losses as a percentage of both total loans and total nonperforming loans was 1.09% and 183.93% respectively.

The market value of assets under management by our Investment & Trust Services Department totaled \$497,215,000 at December 31, 2008. This figure includes approximately \$61,600,000 of assets under management added as a result of our acquisition of Community Financial, Inc. and its subsidiary, Community Trust Company, in November 2008. Excluding the effect of this acquisition, assets under management declined \$72,305,000 or 14.2% from the \$507,920,000 valuation at December 31, 2007 as a result of turmoil in the financial markets. Assets under management as reported does not include approximately \$72,000,000 in assets held at third-party brokers at December 31, 2008 compared to \$83,000,000 at year-end 2007.

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Lynn Waite, Small Business Relationship Manager—Southern Franklin County, works from her office in Greencastle to ensure small businesses in the region have access to all the necessary financial tools to manage growth properly—and transform into medium or large businesses if they choose.



Susan Russell, Vice President and Relationship Manager, joined F&M Trust in late 2008 when Community Financial merged with FFSC. Sue will continue to support her investment and trust clients—enhancing F&M Trust's commitment to Cumberland County. Her office is located at 3907 Market Street in Camp Hill.

Investment & Trust Services fee income, including revenue generated through the Personal Investment Centers, declined from \$4,129,000 in 2007 to \$3,500,000 in 2008. As I discussed in last year's Message to Shareholders, our 2007 revenues included \$617,000 of nonrecurring fee income relating to two estates that were distributed during the year.

As noted above, Franklin Financial completed the acquisition of Community Financial, Inc. (Community), headquartered in Camp Hill on November 29, 2008. As part of this transaction, Community's wholly owned subsidiary, Community Trust Company, merged with F&M Trust. Shareholders of Community had approved the merger with an affirmative vote of 85.3% of outstanding shares of common stock entitled to vote.

Under the terms of the Agreement and Plan of merger dated June 7, 2008, each share of Community common stock outstanding at the time of the merger will be exchanged for cash. The total amount paid by Franklin Financial in connection with this transaction was \$1,130,000.

In addition to adding approximately \$61,600,000 in assets under management, we believe that this transaction enhances the presence of our Investment and Trust Services Department on the West Shore and presents us with an exciting opportunity for future growth. Susan Russell, Community's President & CEO, joined us as a Vice President and Relationship Manager, and we plan to continue to service Community Trust's clients from our new Camp Hill location.

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 30% and 125% respectively. An ongoing initiative to recruit new members in order to increase volume resulted in one additional bank commencing production in 2008. Mortgages originated by F&M Trust and insured by Bankers Settlement Services accounted for approximately 13.7% of the agency's total net premium revenue in 2008. The lending officers of F&M Trust achieved an overall penetration rate of 51% on residential mortgages closed.

Our investment in BankersRe Insurance Group, SPC a captive insurance company owned by nine Pennsylvania banks, generated dividends and fee income of approximately \$118,000

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Turkeyfoot Equipment LLC—Chambersburg, PA

While Turkeyfoot Equipment LLC is based locally, co-owners **Lyle** (left) and **Wanda Diller** (not pictured) have the drive to reach customers well beyond the Franklin County line. In fact, since 1998 they've grown their pre-owned construction and farm equipment business to yield nearly \$4 million in annual sales. What helps make this possible? Just ask **Phil Pantano**, Commercial Services Relationship Manager (right). Phil and his F&M Trust team have designed a well-balanced package of financial tools to allow the Dillers to dig into even more opportunities.



George S. Hann & Son, Inc.—Fort Littleton, PA

Since 1968, George S. Hann & Son, Inc. has grown to be a steady force in commercial construction. Co-owners **Jodie** (far right) and **George Hann, Jr.** (far left), lead their work crews and subcontractors to build commercial facilities, bridges, sewers and more—major projects which require extensive working capital. That's why **Dianne Cornman CTP**, VP/Cash Management Specialist at F&M Trust (center left), and **Don Trego**, AVP/Small Business Relationship Manager at F&M Trust (center right), work with the Hanns to ensure deposits are maximized and commercial financing tools are in place—working together to build an even stronger business.



during 2008. As of year-end, our portfolio of residential mortgage loans with private mortgage insurance in force exceeded \$21,800,000 while our portfolio of consumer loans with “protected balances” by Debt Protections Coverage exceeded \$12,300,000.

We continue to introduce products and services providing added convenience to our customers and prospective customers. During the fourth quarter of 2007, 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 our pricing. Although residential mortgage origination activity was relatively slow during 2008, we have been pleased with the quality of service and turnaround time provided by American Home Bank during the current “refi boom” which began in late December.

By the end of the first quarter, we will have the capability of accepting both residential mortgage and home equity loan and line of credit applications online. In addition to the ability to review our current interest rates and programs as well as to be notified electronically as interest rates change, this system will feature a Resource Guide to answer questions about various programs, a “Check Status” feature enabling the applicant(s) to determine the status of an in process application and the capability of issuing a pre-qualification approval letter online. We are also excited about our recent approval as a lender for the mortgage programs offered by the Farmers Home Administration (FHA). The mission of the FHA is to provide mortgage insurance to private lenders to encourage the flow of first-time and minority homebuyers. The FHA’s product line accommodates purchases and refinances with a current maximum loan limit of \$271,000. Almost 20% of all mortgages are currently originated under the FHA’s programs. We are confident that our approval as an FHA lender will enable us to build many new customer relationships.

Our small business initiative continues to gain momentum. F&M Trust has renewed its partnerships with the Small Business Development Centers (SBDCs) 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. We will

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Dave Zimmerman,
Vice President, Commercial
Services—Cumberland
County, joined the
F&M Trust team during
2008 and provides
clients with 15 years
of solid commercial
banking experience.



Doug Corl, Mortgage Originator—Southern Franklin County, relies on his real estate and banking experience to connect mortgage clients in his region with financing solutions that fit well—ensuring the mortgages he writes are safe, solid solutions for both the homeowner and the bank. That's just "business as usual" at F&M Trust.



continue to be the exclusive sponsor of the "First Step" and "Business Planning" workshops conducted by the SBDCs during 2009, plus other seminars on special topics. F&M Trust's Small Business Relationship Managers participate in each workshop, presenting a segment focused on financing options. We believe that these partnerships provide entrepreneurs with education, information, and tools to build and sustain successful businesses which will directly benefit our local economy while providing F&M Trust with an opportunity to increase our penetration of the small business market. Our approval as a designated lender for the loan guaranty programs offered by the U.S. Small Business Administration (SBA) during early 2008 has enabled us to assist existing or start-up businesses in the early states of 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.

F&M Trust also introduced the Money Clinic to provide basic financial information and to increase the "money skills" and "Financial IQ" of customers, clients, and prospective customers. Money Clinic, while geared toward Generation X and Generation Y consumers, is more than just an introduction to money. The information web site is packed with fundamentals of finance to help consumers—whether they're saving money, investing it, borrowing it, or spending it—handle money more wisely.

The web site (www.mymoneyclinic.com) includes calculators and other resources in addition to informational articles. The information provided on the web site is general, and visitors can be directed to an F&M Trust professional about financial solutions for their specific situation.

During the fourth quarter of 2008, we added a "cash rewards" feature to our popular FranklinBusine\$\$ Card (MasterCard Debit Card). We also introduced Franklin Busine\$\$ eDeposit (Remote Deposit Capture) which will save businesses of all sizes both time and money. Customers have the ability to scan their checks and transmit them to a secure website. The items are then processed and automatically credited to the business' bank account, eliminating the need to travel to the bank to make the deposit. The initial customer response to this service has been very positive.

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Gold's Gym—Carlisle & Chambersburg, PA

When co-owners **Tori** (left) and **John Spayd** (right) expanded their Gold's Gym presence beyond Carlisle to Chambersburg, they looked to **Ken Brookens**, AVP/Commercial Services of F&M Trust (center), for a powerful solution. They wanted the personal attention of a community bank combined with reliable cash management services that had the strength to handle both locations—rivaling what bigger banks offer.





YMCA—Waynesboro, PA

When **Alan Smith**, Executive Director of the Waynesboro YMCA (right), was ready to build a better way to serve the community, he included **Debbie Michael**, VP/Commercial Services at F&M Trust (left), in his plans. As a community-based bank, F&M Trust was quick to customize a financing package that supported more than a third of the overall redevelopment project. Thanks to expanded fitness capabilities, as well as new rooms and workspace, Alan's community service team at the YMCA has seen a very healthy increase in membership.



The newly-remodeled **Orchard Park** office.



The new **Norland Avenue** office.

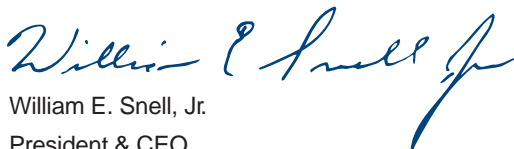
We made an additional investment in expanding and upgrading our community office network during 2008. In March, we opened an ATM at the entrance to Northgate Commons on the Northfield Campus of Menno Haven. Extensive renovations to expand the lobby and reconfigure the drive-up at our Orchard Park Office were completed in October and we are delighted with the feedback from our customers. Our twenty-fifth community office, at the corner of Norland Avenue and Parkwood Drive, opened in August. This new office is already one of our busiest from a transactional standpoint. Finally, renovations to our Philadelphia Avenue Office were started in October and recently completed.

Our ATM network will expand again in 2009 with new drive-up units at Ayr Town Center in McConnellsburg and in the Riverview Business Center in Mt. Union. We will also be expanding our Carlisle Crossing office to accommodate the growth of our Cumberland County Commercial Services staff. Finally, renovations to the former Community Trust office on Market Street in Camp Hill to add a drive-up and banking lobby are planned to begin in the second quarter.

Before concluding, I would like to take this opportunity to recognize and thank Huber McCleary, who retired from the Franklin Financial Board of Directors at the end of 2008, for his eighteen years of dedicated service. Huber was elected to the Boards of Franklin Financial and F&M Trust in 1990. His insight, wisdom, and support will be missed.

I anticipate that 2009 will again be a challenging year for financial institutions. Your interest and support as Franklin Financial shareholders is sincerely appreciated.

Sincerely,



William E. Snell, Jr.
President & CEO

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 Offices of
Stanley J. Kerlin



H. Huber McCleary*
President –
McCleary Oil
Company



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



Stephen E. Patterson, Esq.
Principal –
Salzmann Hughes 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.
Partner –
Walker, Connor and
Johnson, LLC

FFSC Officers

Charles M. Sioberg
Chairman of the Board

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

Mark R. Hollar
Treasurer and Chief Financial Officer

Catherine C. Angle
Corporate Secretary

Joyce A. Riley
Assistant Corporate Secretary

*Retired from the Board effective 12/31/08.



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 Services Market Manager

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

Olaf R. Hasse
Vice President
Retail Services Market Manager

Thomas L. Peterson, LUTCF
Vice President
Investment & Trust Services
Market Manager

Relationship Management Division

Commercial Services

Dianne L. Cornman, CTP
Vice President
Cash Management Specialist

Debra K. Michael
Vice President

Brian E. Weikert
Vice President

David P. Zimmerman
Vice President

Kenneth W. Brookens
Assistant Vice President

Philip A. Pantano
Commercial Services
Relationship Manager

Kathleen M. Bloss
Credit Department Manager

Jeremy D. Culler
Credit Analyst

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
Assistant Vice President 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
Melanie D. Gordon
Financial Services Officer
and Manager

Norland Avenue Office
Desirae N. Fleagle
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
and Assistant Manager

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

Natasha A. Carmack
Financial Services Officer
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

Lindsay Reisinger
Small Business Relationship Manager

Carlisle Plaza, Boiling Springs,
and Carlisle Crossing Offices

David R. Winters
Assistant Vice President and Manager

Kevin M. Stoner
Financial Services Officer
and Assistant Manager

Newville Office

Ellen L. Ile
Financial Services Officer
and Manager

Shippensburg Office

Barbara A. Hoover
Financial Services Officer
and Manager

Ritner Highway
and Hanover Street Offices

I. Edward Bidelspach
Assistant Vice President and Manager

FULTON & HUNTINGDON COUNTIES 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

Warfordsburg Office

B. Jay True
Financial Services Officer
and Manager

Penns Village Office

Penny J. Koser
Financial Services Officer
and Manager

Hustontown Office

Denise M. Doyle
Assistant Financial Services Officer
and Assistant Manager

Consumer Lending Services

Susan E. Michael
Vice President

Penni L. Strait
Dealer Center Relationship Manager

Investment & Trust Services

Carole L. Crist
Vice President
Investment & Trust Services Officer

Ronald R. Froeschle, QPA, QKA
Vice President
Employee Benefits Officer

Warren M. Hurt
Vice President
Senior Investment Portfolio Manager

Charles R. Porter
Vice President
Business Development

James P. Probst
Vice President
Investment & Trust Services Officer

Allen C. Rebok
Vice President
Investment & Trust Services Officer

Susan A. Russell
Vice President
Relationship Manager

F&M Trust Company Officers *(continued)*

Dennis L. Wilson

Vice President
Investment & Trust Services Officer

Diana L. Sponseller

Vice President
Investment & Trust Services Officer

Mark P. Bernier

Investment Portfolio Manager

Heather C. Hershey

Estate Administration Officer

Robin L. Murray

Trust Operations Manager

James R. Ifert II

Assistant Investment and
Trust Services Officer
Personal Investment Counselor

Avis M. Graham, 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

Risk Management

William A. Pryor

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

Norland Avenue
870 Norland Avenue
Chambersburg
717-262-2085

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

Trust Services Location

Camp Hill
3907 Market Street
Camp Hill
717-731-9604

Star®/Cirrus® ATM Locations

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 28, 2009 at The Orchards Restaurant, 1580 Orchard Drive, Chambersburg. The Business Meeting will begin at 10:30 a.m. and will be followed by a luncheon. If interested in attending, please complete and return the reservation form reply card by April 13th.

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

Morgan Keegan & Co., Inc.

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

RBC Dain Rauscher

2101 Oregon Pike
Lancaster, PA 17601
866-604-1471

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.

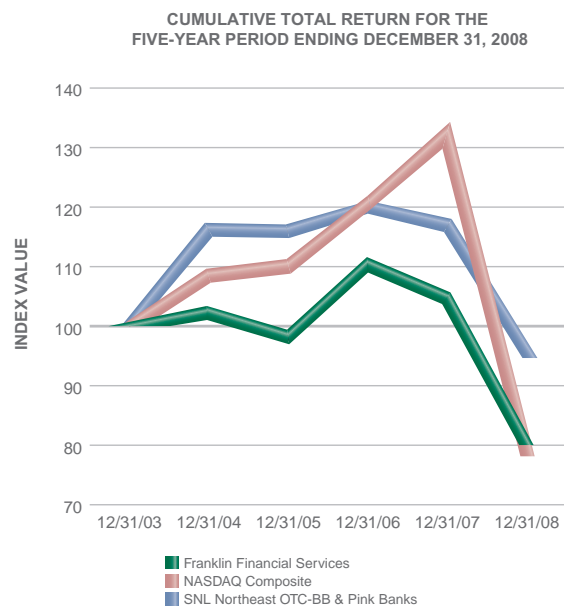
There were 2,123 shareholders of record as of December 31, 2008. The range of high and low bid prices, as reported by local sources is shown below for the years 2008 and 2007. Also shown are the regular quarterly cash dividends paid for the same years.

2008 Per Share			Cash Dividends Paid	2007 Per Share			Cash Dividends Paid
	High	Low			High	Low	
First quarter	\$24.80	\$23.10	\$0.26	First quarter	\$27.23	\$26.93	\$0.25
Second quarter	24.15	23.00	0.27	Second quarter	27.23	26.74	0.26
Third quarter	23.00	20.30	0.27	Third quarter	27.08	24.60	0.26
Fourth quarter	21.51	16.50	0.27	Fourth quarter	25.80	24.25	0.26
			\$1.07				\$1.03

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, 2008, in each case assuming an initial investment of \$100 on December 31, 2003 and the reinvestment of all dividends.



Index	Period Ended					
	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Franklin Financial Services Corporation	100.00	101.98	98.04	110.12	104.66	80.23
NASDAQ Composite	100.00	108.59	110.08	120.56	132.39	78.72
SNL Northeast OTC-BB & Pink Banks	100.00	116.50	116.15	120.03	116.89	95.21



Franklin
Financial
Services
Corporation

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Chambersburg, PA 17201
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www.franklinfin.com