



Franklin Financial
Services Corporation

2009 ANNUAL REPORT



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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 The Farmers and Merchants Trust Company of Chambersburg (the bank, F&M Trust).



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)	2009	2008	% increase (decrease)
Performance			
Net income	\$ 6,585	\$ 8,595	(23)
Return on average equity	8.69%	10.99%	
Return on average assets	0.69%	1.01%	
Return on average tangible equity ¹	10.79%	13.19%	
Return on average tangible assets ¹	0.74%	1.05%	
Shareholders' Value (per share)			
Diluted earnings per share	\$ 1.71	\$ 2.24	(24)
Regular cash dividends paid	1.08	1.07	1
Book value	20.39	19.10	7
Market value	16.33	18.25	(11)
Market value/book value multiple	0.80	0.96	
Price/earnings multiple	9.55	8.15	
Current dividend yield	6.61%	5.92%	
Safety and Soundness			
Leverage ratio (Tier 1)	7.50%	7.84%	
Risk-based capital ratio (Tier 1)	10.89%	11.02%	
Tangible common equity ratio ²	7.47%	7.72%	
Nonperforming assets/total assets	1.93%	0.44%	
Allowance for loan losses as a percentage of loans	1.21%	1.09%	
Net charge-offs/average loans	0.26%	0.19%	
Balance Sheet Highlights			
Total assets	\$979,373	\$902,460	9
Investment securities	149,770	154,041	(3)
Loans, net	730,626	668,860	9
Deposits and customer repurchase agreements	794,220	691,653	15
Shareholders' equity	78,766	73,059	8
Trust assets under management (market value)	460,233	497,215	(7)

¹Excludes core deposit intangible assets, goodwill and intangible asset amortization.

²Total equity less AOCI, goodwill and intangibles / total assets less goodwill and intangibles.

Summary of Selected Financial Data

For the year ended, December 31

(dollars in thousands, except per share)

	2009	2008	2007	2006	2005
Summary of Operations					
Interest income	\$ 43,757	\$ 46,156	\$ 49,487	\$ 40,902	\$ 29,711
Interest expense	14,674	16,037	23,796	19,956	12,173
Net interest income	29,083	30,119	25,691	20,946	17,538
Provision for loan losses	3,438	1,193	990	240	426
Net interest income after provision for loan losses	25,645	28,926	24,701	20,706	17,112
Noninterest income	8,880	6,538	10,107	8,257	6,995
Noninterest expense	25,929	23,189	22,793	19,296	17,058
Income before income taxes	8,596	12,275	12,015	9,667	7,049
Income tax	2,011	3,680	2,759	2,097	937
Net income	\$ 6,585	\$ 8,595	\$ 9,256	\$ 7,570	\$ 6,112

Per Common Share

Basic earnings	\$ 1.71	\$ 2.24	\$ 2.41	\$ 2.11	\$ 1.82
Diluted earnings	1.71	2.24	2.40	2.10	1.81
Regular cash dividends paid	1.08	1.07	1.03	0.99	0.95
Market value	16.33	18.25	24.95	27.30	25.25

Balance Sheet Data (end of year)

Total assets	\$ 979,373	\$ 902,460	\$ 820,371	\$ 799,333	\$ 621,357
Loans, net	730,626	668,860	564,256	521,684	391,788
Deposits	738,365	627,341	606,277	595,295	456,799
Long-term debt	94,688	106,141	59,714	38,449	48,546
Shareholders' equity	78,766	73,059	77,642	71,614	55,670
Trust assets under management (market value)	460,233	497,215	507,920	538,152	411,165

Performance Measurements

Return on average assets	0.69%	1.01%	1.14%	1.07%	1.03%
Return on average equity	8.69%	10.99%	12.62%	11.92%	11.13%
Return on average tangible assets ¹	0.74%	1.05%	1.18%	1.09%	1.03%
Return on average tangible equity ¹	10.79%	13.19%	15.41%	13.42%	11.13%
Dividend payout ratio	62.95%	47.66%	42.77%	47.03%	52.31%
Average equity to average asset ratio	7.98%	9.18%	8.98%	8.96%	9.28%
Efficiency ratio	65.35%	61.25%	61.28%	63.06%	66.39%
Net interest margin	3.44%	4.03%	3.67%	3.45%	3.45%

¹Excludes core deposit intangible assets, goodwill and intangible asset amortization.

Bill Snell
President & CEO

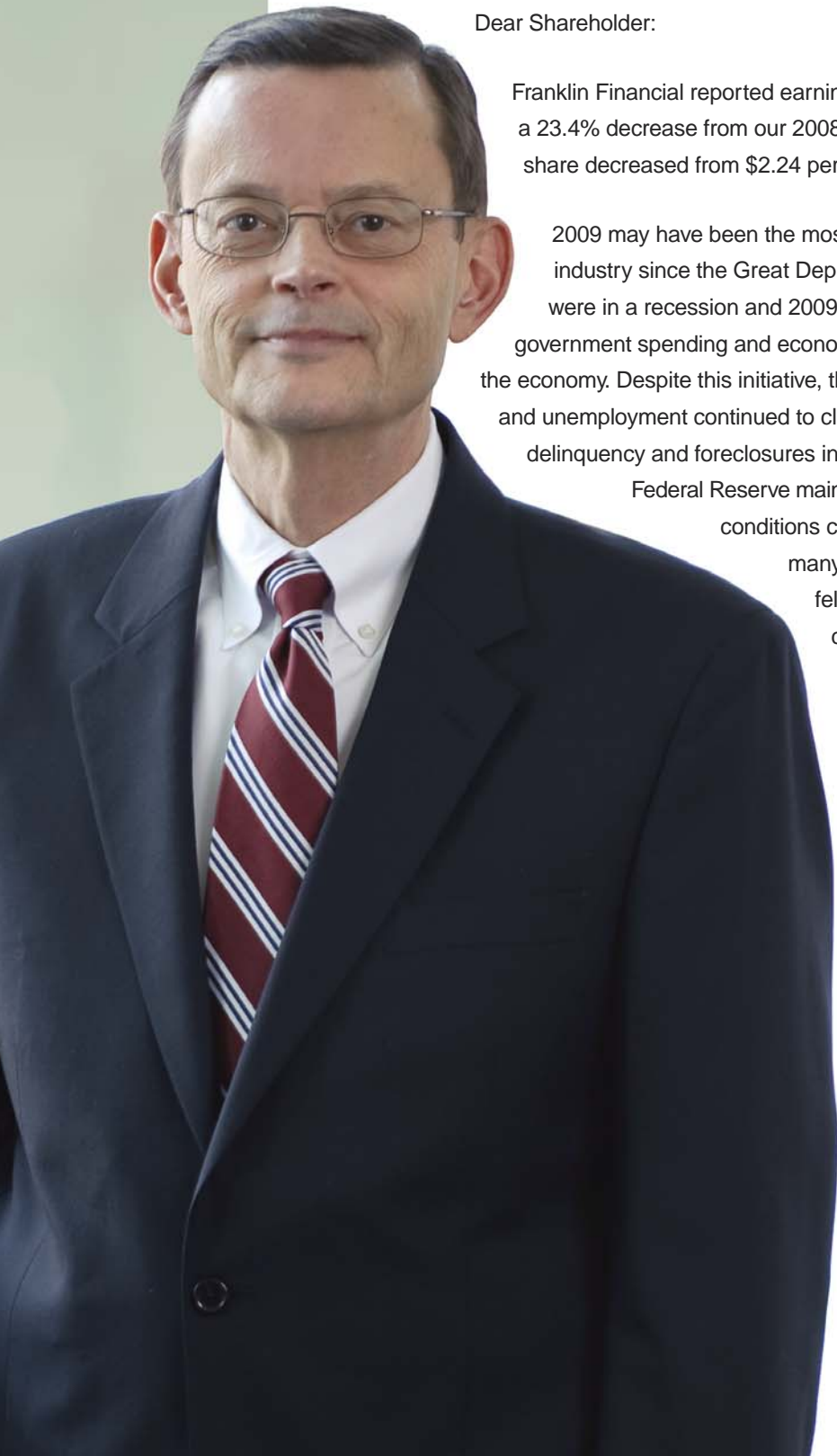
A Message to Our Shareholders

Dear Shareholder:

Franklin Financial reported earnings of \$6,585,000 in 2009, representing a 23.4% decrease from our 2008 earnings of \$8,595,000. Diluted earnings per share decreased from \$2.24 per share in 2008 to \$1.71 per share in 2009.

2009 may have been the most challenging year in the financial services industry since the Great Depression. As 2008 ended, it was clear that we were in a recession and 2009 began with the passage of the largest ever government spending and economic stimulus plan in an effort to jump-start the economy. Despite this initiative, the economy continued further into recession and unemployment continued to climb, reaching double digits. Consumer loan delinquency and foreclosures increased, as did business failures. And the Federal Reserve maintained short-term rates at historic lows. These conditions created a difficult operating environment for many banks during 2009 as net interest margins fell and loan losses increased. As the recession continued, bank failures increased from 25 in 2008 to 140 in 2009. As of February 28, 2010, 22 banks have already been closed.

The vast majority of community banks, including F&M Trust, continue to be among the safest and strongest institutions in our nation's financial system. As a result, we have been tasked by the FDIC with maintaining the solvency of the Deposit Insurance Fund through increased deposit insurance premiums, special assessments, and insurance premium prepayments as the current pace of bank failures is anticipated through at least 2011.



Franklin Financial was not immune to this challenging environment but fared much better than many of its peers. Although the media has repeatedly reported that “banks have stopped lending”, we continued to support both consumers and businesses in our marketplace, registering *exceptional* growth in both loans and deposits during 2009.

Some key factors negatively impacting our financial performance in 2009 included:

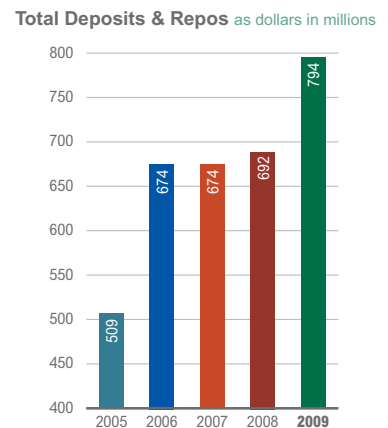
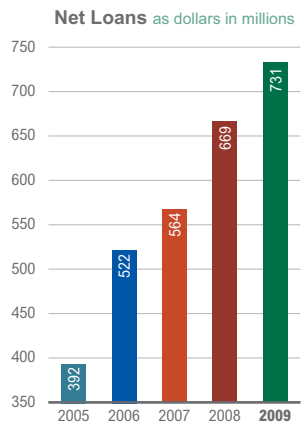
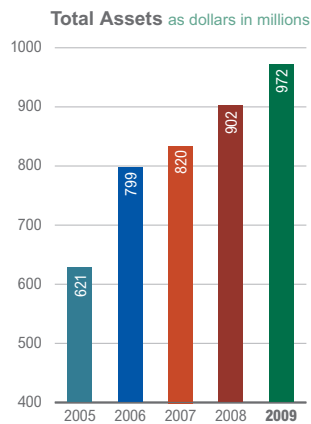
- A 3.85% decrease in Net Interest Income on a fully tax equivalent basis (FTE) from \$31,488,000 in 2008 to \$30,277,000 in 2009. Although growth in loan volume positively impacted FTE Net Interest Income, the Federal Reserve’s action to significantly lower short-term interest rates in December 2008, led to a repricing of loan yields which was not offset as quickly by the repricing of deposit costs.

The vast majority of community banks, including F&M Trust, continue to be among the safest and strongest institutions in our nation’s financial system.

- FDIC insurance premiums increased from \$105,000 in 2008 to \$1,397,000 in 2009. In February 2009, the FDIC published a final rule imposing a seven basis point increase in the current deposit insurance assessment rates starting in the first quarter. Subsequently, on May 22nd, the FDIC adopted a final rule imposing a five basis point special assessment on each insured depository institution’s

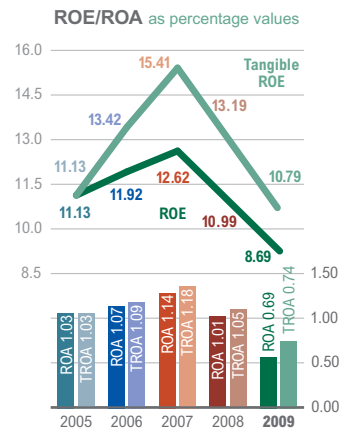
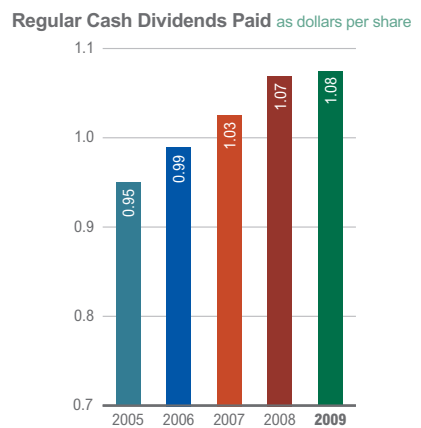
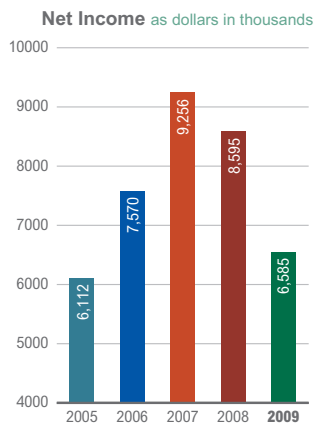
assets minus Tier I Capital as of June 30, 2009. The special assessment was collected on September 30th and equated to approximately \$450,000 for Franklin Financial. Finally, on September 29th, the FDIC adopted an Amended Restoration Plan to allow the Deposit Insurance Fund to return to its statutorily mandated minimum reserve ratio of 1.15% within eight years. At the same time, the FDIC required all insured institutions to prepay as of December 30th their estimated quarterly risk-based assessment for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. Franklin Financial paid an assessment of approximately \$4,000,000 which was recorded as a prepaid expense.

(continued)



- An increase in our Provision for Loan Losses from \$1,193,000 in 2008 to \$3,438,000 in 2009 as a result of continued loan growth as well as an increase in Net Charge-offs and Nonperforming Assets.
- A \$588,000 increase in Pension Expense relating to the low interest rate environment.
- Other Than Temporarily Impaired write-downs on financial services stocks in our investment portfolio in the amount of \$422,000 and net losses on the sale of other securities totaling \$522,000.





As a shareholder, you received a 1% increase in regular cash dividends from \$1.07 in 2008 to \$1.08 in 2009. Our current annual dividend payout represents a 6.6% return based upon the closing price of Franklin Financial stock at December 31, 2009. Regular cash dividends have grown at an average rate of 4.2% over the past five years.

The market value of a share of Franklin Financial stock decreased 10.5% from a closing price of \$18.25 at year-end 2008 to \$16.33 at December 31, 2009. We are

(continued)

- F&M Trust Management team (left to right):
- Ken Ditzler
 - Mike Kugler
 - Trish Hanks
 - Ron Cekovich
 - Mark Hollar
 - Bill Snell
 - Tom Peterson
 - Karen Carmack
- (Not pictured: Sandy Small)





Left to right:
Mike Kugler, SVP & Commercial Services Market Manager, F&M Trust
Sherry L. Flair, Controller, Martin's
J. Anthony Martin, VP Business Information Development, Martin's
Joseph A. Martin, Director of Production Operations, Martin's
James A. Martin, President, Martin's
Ronald G. Gipe, Executive Vice President, Martin's
Dianne Cornman, CTP, VP Cash Management Specialist, F&M Trust

Martin's Famous Pastry Shoppe, Inc. Franklin County

The Martins have been in business for more than 50 years—starting with their famous potato rolls and expanding to include Gibbles® snack products. Today, the company continues to enjoy the community-based style of F&M Trust. **Mike Kugler** and **Dianne Cornman** keep everything easy with smart financing and cash management options, helping the Martin's team can stay focused on what they do best—serving hungry grocery and wholesale buyers up and down the East Coast.

not optimistic that financial services stocks will show a significant recovery until investors again regain confidence in both the economic recovery as well as the future earnings capacity of our industry.

Franklin Financial's total assets reached \$979,373,000 at December 31, 2009, representing an 8.5% increase over 2008. Net loans grew by 9.2% on a year-over-year basis. Average loan outstandings increased by \$89,757,000 or 14.5% in 2009. Commercial loan demand remained strong resulting in \$235,000,000 of closed loan transactions which increased the average loan outstandings in this portfolio by \$107,731,000 or 26.7%. Average consumer loan outstandings decreased 5.8% to \$125,091,000 as consumers "pulled in their horns" and focused on reducing debt and increasing savings. The lower interest rate environment did, however, create a "refi boom" in residential mortgage closings. Closings in 2009 increased to \$49,500,000 from \$27,800,000 in 2008. Average residential mortgage outstandings declined by 12.5% or \$10,494,000 as we continue to hold fewer mortgage originations in our portfolio.

We experienced strong deposit growth in 2009 as consumers and businesses built liquidity and moved funds out of higher risk investments. Total deposits and repurchase agreements as measured at year-end increased by 14.8% to \$794,220,000 while average deposits and repurchase agreements increased 11.8% to \$754,008,000. In addition to significant growth in Certificate of Deposit balances as a result of several successful promotions, average core deposits (i.e. checking, savings, and interest bearing checking) increased by 3.8% to \$225,415,000 while our Money Management Accounts increased by \$7,173,000 to \$216,201,000.

Our financial condition remains strong as evidenced by a Total Risk-Based Capital Ratio of 10.89% and a Leverage Capital Ratio of 7.50%. 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

(continued)

Melanie Gordon,
Financial Services
Officer and Manager,
joined F&M Trust in
2009 as St. Thomas
Community Office
Manager. She brings
14 years of banking
experience and a solid
personal commitment
to the community—
including helping with
youth sports and
serving as deacon at
her church.



Jim Probst,
Vice President
Investment & Trust
Services Officer
has been a valuable
asset with F&M Trust
for the past 35 years.
Based at the Memorial
Square office, Jim
works to connect his
clients with reliable
asset management
solutions and personal
guidance on trust
management needs.



percentage of Total Assets excluding Goodwill and Intangible Assets, stands at 7.47% at year-end. This ratio has increasingly been the focus of both regulators and investors seeking to measure true capital adequacy.

Franklin Financial's safety and soundness indicators continue to compare favorably to peers. As a result of the continued loan growth as well as an increase in net charge-offs from .19% in 2008 to .26% in 2009 and an increase in Nonperforming Assets/Total Assets to 1.93%, we increased our Provision for Loan Losses by \$2,245,000. Accordingly, our Allowance for Loan Losses as a percentage of Total Loans increased from 1.09% at year-end 2008 to 1.21% at December 31, 2009.

The market value of assets under management by our Investment and Trust Services Department decreased from \$497,215,000 at year-end 2008 to \$460,233,000 as of December 31, 2009, reflecting decreased market valuations. Assets under management as reported does not include approximately \$97,700,000 in assets held at third party brokers at December 31, 2009 compared to \$72,100,000 at year-end 2008. Investment and Trust Services fee income, including revenue generated through the Personal Investment Centers increased modestly from \$3,500,000 in 2008 to \$3,519,000 in 2009 again reflecting depressed market valuations through most of 2009.

Our investment in Bankers Settlement Services-Capital Region, LLC, a bank-owned title insurance agency based in Harrisburg and affiliated with Investors Title Insurance Company generated dividends in the amount of \$80,000. The agency's revenues and profitability increased by 25% and 49% respectively. Mortgage originations by F&M Trust and insured by Bankers Settlement Services accounted for approximately 13.3% of the agency's total net premium revenue in 2009. The lending officers of F&M Trust achieved an overall penetration ratio of 41% on residential mortgages closed.

We continue to introduce products and services providing added convenience to our customers and prospective customers. During the first quarter, we added the capability of accepting both residential mortgage and home equity loan

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Custom Sign Studio Franklin County

When **Wayne Driscoll** (left), owner of Custom Sign Studio (formerly known as Wayne Driscoll Custom Sign), moved from Richmond, VA to Waynesboro, he knew he wanted a bank that could provide sincere personal service and smart financial tools that fit the needs of his growing business. And that's exactly what **Lynn Waite** (right) and her F&M Trust team has been providing. She works to help Wayne finance equipment purchases to keep up with technology advances, as well as make building renovations. He's converting a former local tavern site into an attractive new office and production space. Wayne points out that the best thing about F&M Trust is the "truly personal service" he receives. He likes that everyone knows him by name...and he knows them, too.





JW Music Cumberland County

Justin Walters, owner of JW Music in Carlisle and Mechanicsburg enjoys playing violin and getting musical instruments into the hands of countless music lovers, young and old. But what's really music to his ears is the sound of business success. Thanks to the support of **Dave Zimmerman** and F&M Trust, Justin has been able to expand—acquiring Wray's Music House in Lemoyne.

He can now reach even more talented hands in local towns and schools.

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, the system features a “Check Status” feature enabling the applicant(s) to determine the status of an in-process application and the capability of issuing a prequalification approval letter online. The volume of on-line applications to date has consistently exceeded our expectations.

Our Investment and Trust Services Department introduced a new software system with the ability to create a truly comprehensive financial plan. The response from both existing and prospective customers has been very positive. Additionally, our tax preparation services were outsourced to FAST-TAX, which offers state-of-the-art capabilities.

In October, we converted to a new online bill pay solution which enabled us to increase the percentage of all bill pay transactions that are processed electronically from less than 20% to more than 70%. Customers have the option to receive and pay their bills electronically. We are delighted that our customers have embraced this new platform as utilization more than doubled during the first four months.

Our small business initiative continues to produce measurable results. F&M Trust executed multi-year contracts to partner 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 continue to be the exclusive sponsor of the “First Step” and “Business Planning” workshops conducted by the SBDCs. F&M Trust’s Small Business Relationship Managers participate in each workshop, presenting a segment focused on financing options. In addition to providing entrepreneurs with education, information, and tools to build and sustain successful businesses which will directly benefit our local economy, partnering with these SBDCs has provided F&M Trust with an opportunity to increase our penetration of the small business market.

In the first quarter of 2010, we rolled out a Small Business Contact program targeted at specific businesses which will feature a DVD highlighting the Small

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Tony Damore,
Assistant Vice President
Cumberland County
Market, joined F&M Trust
during 2009. As Market
Manager with 20 years
of experience, he is
committed to building
better customer
relationships throughout
Cumberland County.
Tony knows the
meaning of community—
volunteering his time and
talents in Shippensburg
and Carlisle.



Rod Salter, joined F&M Trust in 2008 as Personal Investment Counselor. Rod's goal with the Personal Investment Center at F&M Trust is to provide personal service and experienced guidance—helping Franklin County clients develop and maintain reliable investment strategies.



Business Services of F&M Trust. We are also evaluating opportunities to add a Small Business segment to the Money Clinic. F&M Trust introduced the Money Clinic in 2008 to provide basic financial information and to increase the “money skills” and “Financial IQ” of customers and prospective customers. The initial focus of the Money Clinic (www.mymoneyclinic.com) was toward Generation X and Generation Y consumers. The information on the web site is general, and visitors can be directed to an F&M Trust professional about financial solutions for their specific situation.

Operational efficiency was greatly enhanced following the implementation of “branch capture.” We added additional functionality to our check processing system by installing software that “reads” the hand written amounts on checks. Currently, this system is able to “read” more than 80% of the items automatically. We also deployed equipment in our community offices to electronically scan items such as deposits and loan payments taken over the teller line and transmit them to our check processing system. This technology, which also supports Franklin Business e-deposit (remote deposit capture) for our business customers, has enabled us to standardize our daily cut-off times across all of our community offices and to avoid delays during inclement weather in transporting items to our check processing center.

We made an additional investment in upgrading our community office network during 2009. The Carlisle Crossing Office was expanded to accommodate the growth of our Cumberland County Regional and Commercial Services staff. In addition to completing a major renovation to our Philadelphia Avenue office started in the fourth quarter of 2008, both our St. Thomas and Shippensburg offices received upgrades.

Our ATM network will expand again in 2010 with new drive-up units at Ayr Town Center in McConnellsburg and in the Riverview Business Center in Mount Union. Both locations, originally planned for 2009, will be operational by June 30th. We have also commenced renovations to the former Community Trust office on Market Street in Camp Hill to add a drive-up and retail banking lobby. In addition to Investment & Trust Services as well as consumer banking, we will also offer our small business and commercial banking products and services at this location. This facility is scheduled to be operational in the third quarter.

(continued)



Left to right:

Don Trego, Small Business Relationship Manager, F&M Trust

Paul Johnston, Fulton County Market Manager, F&M Trust

Stuart Ulsh, Owner, TMS Excavating LLC

Mendy Ulsh, Administrative Assistant, TMS Excavating LLC

Tami Ulsh, Office Manager, TMS Excavating LLC

TMS Excavating LLC Fulton County

Since 2003, TMS Excavating LLC in McConnellsburg has been digging into steady success in Fulton, Franklin, Frederick and Washington Counties. Recently, owner **Stuart Ulsh** expanded TMS to become an authorized distributor of Allan Block and Hardscape Products as well.

Late in 2009, Stuart desired a better local banking relationship—one that could help his business grow without digging TMS into a big hole. So he turned to **Don Trego** and **Paul Johnston** at F&M Trust. Don and Paul listened to Stuart's objectives, and developed a custom financial solution that could help TMS scoop up new business—and reliable profit.

Oaktree Environmental Services Cumberland County

Oaktree Environmental Services in Carlisle isn't just a business about managing environmental waste for 3,000 clients. "It's about taking routine service to the next level, so that our customers never have to worry about a thing. Simple as that!" according to GM **Steve Kreis**.

That could be why Oaktree chose F&M Trust, too. **Lindsay Reisinger** and the business services team deliver flexible financial services, so Oaktree can think less about the finances, and more about service and growth.



Before concluding, I would like to take this opportunity to recognize and thank Kurt Suter who retired from the Franklin Financial Board of Directors at the end of January 2010 for his seven years of dedicated service. His insight will be missed.

I anticipate that 2010 will be another challenging year for financial institutions. In addition to continued high unemployment and related asset quality issues, as well as new regulations, the biggest uncertainty for F&M Trust and the financial services industry remains what actions the FDIC will take in order to maintain the solvency of the Deposit Insurance Fund. The FDIC's action to require insured financial institutions to prepay insurance premiums for 2010, 2011, and 2012 as of December 30, 2009 added approximately \$43 billion to the Deposit Insurance Fund. However, the FDIC estimates that at least \$100 billion will be required to handle projected bank failures in 2010 and 2011. I anticipate that the FDIC's loss estimate will continue to grow as we move through 2010.

Your interest and support as Franklin Financial shareholders is sincerely appreciated.

Sincerely,

A handwritten signature in blue ink that reads "William E. Snell, Jr." with a stylized flourish at the end.

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



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 &
Spang, 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 1/31/10.



F&M Trust Officers

Management

William E. Snell, Jr.

President and Chief Executive Officer

Mark R. Hollar

Senior Vice President
Chief Financial Officer,
Controller and Treasurer

Karen K. 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

Patricia A. Hanks

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

Kathleen M. Bloss

Assistant Vice President
Credit Department Manager

Kenneth W. Brookens

Assistant Vice President

Philip A. Pantano

Assistant Vice President

Jeremy D. Culler

Credit Analyst

Eric J. Fleming

Credit Analyst

Retail Services

L. Kay Estep

Assistant Vice President
GO Club Coordinator

CHAMBERSBURG MARKET OFFICES

Lincoln Way East Office

Kim S. McKenrick

Assistant Vice President and Manager

Memorial Square Office

Summer Franzoni

Assistant Vice President and Manager

Dana L. Kaiser

Financial Services Officer
and Assistant Manager

Pamela J. Kolsun

Assistant Financial Services Officer

Norland Avenue Office

Desirae N. Fleagle

Financial Services Officer and Manager

Orchard Park Office

Antonia L. Diffenderfer

Assistant Vice President and Manager

Christina L. Yoder

Assistant Financial Services Officer and
Assistant Manager

Penn Hall and Menno Village Offices

Bonita C. Yocum

Assistant Vice President and Manager

Philadelphia Avenue Office

Phyllis J. Amsley-Drawbaugh

Financial Services Officer and Manager

St. Thomas Office

Melanie D. Gordon

Financial Services Officer and Manager

West Side Office

N. Joy Weller

Vice President and Manager

F&M Trust 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

Tracy D. Burger

Assistant Financial Services Officer
and Assistant Manager
Greencastle Office

Vicky L. Carson

Assistant Financial Services Officer and
Assistant Manager
Marion Office

Mont Alto Office

Renee L. Preso

Assistant Vice President and Manager

Linda K. Stottlemeyer

Financial Services Officer and Assistant
Manager

Waynesboro Office

Natasha J. Carmack

Financial Services Officer
and Manager

Chastity L. Wantz

Assistant Financial Services Officer and
Assistant Manager

CUMBERLAND COUNTY MARKET OFFICES

Anthony L. Damore

Assistant Vice President
Cumberland County Market Manager

Lindsay J. Reisinger

Small Business Relationship Manager

Boiling Springs and Carlisle Crossing Offices

David R. Winters

Assistant Vice President and Manager

Kevin M. Stoner

Financial Services Officer
and Assistant Manager
Boiling Springs Office

Camp Hill Office

Katrina E. Buck

Financial Services Officer and Manager

Newville Office

Ellen L. Ile

Financial Services Officer
and Manager

Ritner Highway and Hanover Street Offices

I. Edward Bidelspach

Assistant Vice President and Manager

Shippensburg Office

Barbara A. Hoover

Financial Services Officer
and Manager

FULTON & HUNTINGDON COUNTIES MARKET OFFICES

Paul M. Johnston

Assistant Vice President
Fulton County Market Manager

Donald L. Trego

Assistant Vice President
Small Business Relationship Manager

Hustontown Office

Denise M. Doyle

Financial Services Officer and Manager

McConnellsburg Office

Mary E. Wright

Financial Services Officer
and Manager

Tammy L. Kelly

Assistant Financial Services Officer
and Assistant Manager

Orbisonia Office

Shawna C. Dunmire

Financial Services Officer
and Manager

Penns Village Office

Brenda J. Gordon

Financial Services Officer
and Manager

Warfordsburg Office

Geraldine A. Ramsey

Financial Services Officer
and Manager

Consumer Lending Services

Susan E. Michael

Vice President

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

Susan A. Russell

Vice President
Investment & Trust Services Officer

F&M Trust Officers *(continued)*

Diana L. Sponseller

Vice President
Investment & Trust Services Officer

Dennis L. Wilson

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, FSS

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

Samantha J. Burke

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

Risk Management Division

Olaf R. Hasse

Vice President
Loan Portfolio Risk Management Officer

Rachel A. Jennings

Assistant Documentation
Review Officer

Janet E. Stamper

Assistant Documentation
Review Officer

Compliance

Lorie M. Heckman

Vice President
Bank Secrecy Act, Compliance
and Security Officer

John W. Olander

Assistant Compliance Officer

Mary F. Cramer

Bank Secrecy Act and OFAC Analyst

Credit Administration

William A. Pryor

Vice President
Credit Recovery Manager

Technology Services Division

Barry R. Walter

Vice President
Technology Services Officer

Patricia R. Ganoe

Assistant Vice President
Deposit Operations Manager

Pamela A. Johns

Assistant Vice President
Loan Servicing Manager

Matthew C. Clark

Assistant Technology Services Officer

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

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

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

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

Norland Avenue
870 Norland Avenue
Chambersburg
717-262-2085

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

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

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

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

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

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

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

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

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

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

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

Shippensburg
13 Shippensburg
Shopping Center
717-530-2100

Fulton and Huntingdon Counties

Hustontown
7781 Waterfall Road,
Hustontown
717-987-3193

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

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

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

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

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

Northgate Commons
1500 Northfield Drive,
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

Southern Franklin County

Greencastle
518 North Antrim Way,
Greencastle

Marion
5293 Main Street,
Marion

Mont Alto
8 Park Street,
Mont Alto

Penn National Clubhouse
3720 Clubhouse Drive,
Fayetteville

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 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 27, 2010 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 12th.

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 Wealth Management

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

Stifel, Nicolaus & 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 2,111 shareholders of record as of December 31, 2009. The range of high and low bid prices, as reported by local sources is shown below for the years 2009 and 2008. Also shown are the regular quarterly cash dividends paid for the same years.

2009 Per Share

	High	Low	Dividends Declared
First quarter	\$19.00	\$14.00	\$0.27
Second quarter	17.50	14.50	0.27
Third quarter	17.00	15.75	0.27
Fourth quarter	20.50	15.46	0.27
			\$1.08

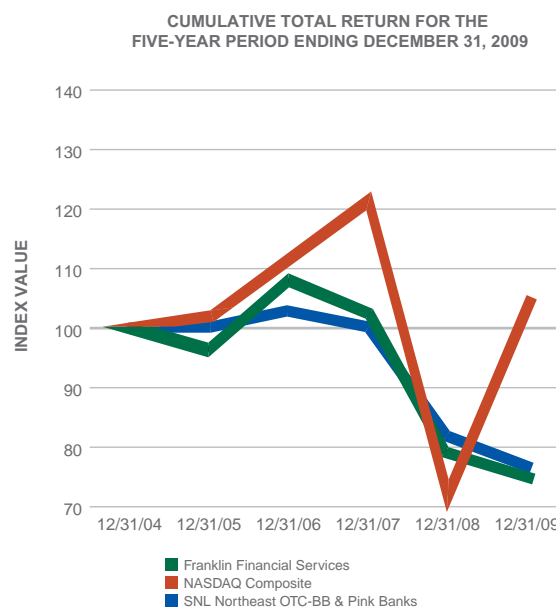
2008 Per Share

	High	Low	Dividends Declared
First quarter	\$24.80	\$23.10	\$0.26
Second quarter	24.15	23.00	0.27
Third quarter	23.00	20.30	0.27
Fourth quarter	21.51	16.50	0.27
			\$1.07

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, 2009, in each case assuming an initial investment of \$100 on December 31, 2004 and the reinvestment of all dividends.



Index	Period Ended					
	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Franklin Financial Services Corporation	100.00	96.14	107.98	102.62	78.68	75.02
NASDAQ Composite	100.00	101.37	111.03	121.92	72.49	104.31
SNL Northeast OTC-BB & Pink Banks	100.00	99.70	103.03	100.33	81.72	76.78



Franklin Financial
Services Corporation

PO Box 6010

Chambersburg, PA 17201

888-264-6116

www.franklinfin.com

