F&M TRUST

Franklin Financial Services Corporation

SHAREHOLDER LETTER 2021

DEAR SHAREHOLDERS,

2021 will be remembered as a pivotal year for your company. We worked through the second year of challenges brought on by the pandemic to have the strongest financial performance in the company's history.

At the same time, we developed, planned, and initiated actions to help drive the company successfully into the future, performing as an ever-growing, community-based, financial services company.

We continued to deal with the effects of the pandemic throughout the year. As with other companies, hiring to fill vacancies and support growth was difficult despite raising starting wages for many positions. Customers were negatively impacted from time to time with closed community office lobbies due to staffing levels affected by Covid-19. Despite this adversity, the bank's digital capabilities continued to develop, and customers were able to access the bank in new ways. During 2021, the company and its customers learned how to embrace the future in ways that are leading us forward in a positive direction.

In 2021, your company continued to grow its balance sheet as total assets climbed 15.6% and shareholder equity grew by 8.2%. Growth was fueled by the continued increase in deposits, which grew by 17.0% to $1.58 billion. By design, deposits grew in just about every type of account except certificates of deposit. Deposit growth was further enhanced by the successful rollout of the YourWay lineup of checking account products that focus on digital access and value returned to our customers. While deposit growth was strong, the bank successfully managed its cost of deposits down to 12 basis points across the portfolio. The bank continues to look for and develop good deposit relationships. Strong core deposits are the foundation of the bank and, even in times of tempered loan growth, our relationships with our depositors are not taken for granted.

While new loan originations were strong in 2021, net loan growth was moderated by the anticipated reduction in Paycheck Protection Program (PPP) loans and the normal amortization of the existing loans. The PPP loan program, which began shortly after the Covid-19 outbreak in 2020, allowed for the forgiveness of loans if the proceeds were used for directed purposes. Of the $105.2 million in PPP loans generated, $97.4 million was forgiven and taken off the books by the end of 2021, representing almost 10% of our December 31, 2020, net loan portfolio.

Importantly, loan quality improved during the year. Watch list loans and non-accrual loans decreased, both in terms of gross loan and percentage of portfolio. Loans with modified repayments due to the economic effects of the pandemic were reduced to zero with all previously modified loans returning to normal amortization. Non-performing assets to total assets decreased to 42 basis points, from 57 basis points in 2020, while the bank maintained a healthy Allowance for Loan Loss of 1.51% and an Allowance to Nonperforming Loans of 204.0%.

While net loans outstanding remained relatively flat over the year, the bank was effective in making sure the growing deposit levels did not sit idle as bank investments grew 33.5% to $530 million. Bank investments were primarily in U.S. agency mortgage-backed securities and municipal securities, though some municipal securities were liquidated at the end of the year to fund loan growth. Over time, we expect to see the level of bank investments decrease as funds are moved from investments to fund anticipated increases in loan volume.

Net income for the bank was a record $19.6 million. While that number was helped by the sale of the bank's headquarters at 20 South Main Street in Chambersburg (net gain on sale of $1.8 million) and a $2.1 million reversal in loan losses, "normalized" year-end results were still very strong. While interest income from loans dipped and the net interest margin dropped to 2.88%, the bottom line was helped by growth in interest and dividends on investments as deposit balances were put to work; growth in fee income earned from investment and trust business; increases in gains on sale of originated residential mortgages; and fee income from other sources that grew as the economy started to spring back from the pandemic-led shutdown of 2020.

Of note is the steady growth in earnings from the Investment & Trust Services and Residential Mortgage teams.

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TIMOTHY G. HENRY
President & CEO

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In 2021, the total assets under management eclipsed $1 billion, partially helped by performance in the equity markets, but most importantly aided by the new additions to "assets under management" that have come to the bank from across its entire footprint. As a result, fee income generated by Investment & Trust Services increased by $1.07 million year-to-year (17.7%). Residential mortgage originations topped $127 million for the year, increasing year-to-year fee income from the sale of mortgages by $894 thousand (58.2%).

Non-interest expenses were also up year to year, primarily in salaries and employee benefits, data processing, ATM and debit card processing, and pension costs. Increases in processing costs were due primarily to the resurgence in the economy and increased transaction activity. The bank met market demand by increasing salaries and wages and accrued anticipated earned bonuses due to its strong performance.

The result of the company's performance was a year-to-year increase of 8.2% in shareholder equity after paying dividends of $1.25 per share (up 4.1% from 2020). ROA and ROE were 1.17% and 13.20% respectively, up from .91% and 9.56% in a pandemic-affected 2020. Capital ratios remain very strong, and the company continues to be considered "well capitalized" by regulators.

> **THE BANK is growing, not just in terms of assets, but in its capabilities to adapt to the changing times and needs of our customers.**
>
> **TIMOTHY G. HENRY**
> President & CEO

Due in part to the underperformance of bank stocks compared to other industry sectors in 2020 and 2021, we fell out of the Russell 3000 stock index and experienced a related decrease in the liquidity of our shares. Despite dropping out of this index, the performance of our stock matched that of our peer group of Mid-Atlantic banks between $1 billion and $2 billion in assets and we saw our stock price rebound over the course of the year from $27.03 (12/31/20) to $33.10 (12/31/21). The Board of Directors approved a new stock repurchase plan in December 2021.

By many measures, 2021, a rebound year from 2020, was a very successful year for your company. And as employees worked diligently to serve our customer's needs, they were also working to prepare the company for the future.

The most visible of the changes is the new bank headquarters on Nitterhouse Drive. Having run out of space at our current headquarters, it was imperative to find a new building that could accommodate growth. The facility on Nitterhouse Drive, a former manufacturing plant in Chambersburg, allows the bank to design a floor plan that meets current needs while being adaptable to future needs. Renovations to the building began in August 2021 and we anticipate moving into the facility in the summer of 2022.

The bank has recognized changes in the trends of its customers, some brought on by Covid-19 and others by the continued development of new technologies. In response, the bank has invested in new services to help customers understand their finances and enhanced its website and mobile banking platform to make banking easier. It is an exciting time to be in banking, with many new, beneficial services becoming available.

With the continuing and growing dependence on online and mobile services, cyber-security remains at the forefront of our thoughts. We take this responsibility to safeguard assets seriously, and we ask for and follow the recommendations coming from federal and state resources and our consultants. As is the case across all industries, the battle to protect information and assets from those who would try to take them is never-ending, and we continue to be vigilant in our efforts to protect ourselves and our customers.

New to your company in 2022 will be Salesforce, an internationally known company that provides customer relationship management software and expertise and, most importantly, an ever-growing digital platform to help all areas of the bank work better together for our customers' benefit. Integrating new software into the company will be a major undertaking in 2022, but one that should bring benefits to everyone – shareholders, customers, and employees – in the future.

Relatively new to the company in 2021 was the intentional focus on DEI (Diversity, Equity, and Inclusion) and ESG (Environment, Social, and Governance). These areas have gained ground in the national conversation and in the conversation of many of our shareholders. During the year, the company developed its DEI statement, which was approved by the Board of Directors. We are taking intentional steps toward improving our programs that will support our statement. The company has established a team of people and retained a consultant to help us 1) analyze where we currently are in terms of matching up with ESG principles, 2) develop a format to publicly communicate where we stand in regard to those principles, and 3) begin work on improving our standards when it will help the company's overall performance. While the DEI and ESG concepts may seem new, many of the practices in each are already ingrained in your company and the new conversations will continue our focus on improving.

In 2022, we will see changes on the bank's Senior Management team as Trish Hanks, Ron Cekovich, and Joe Lieb will be retiring. All three have been extremely gracious in how they have handled their retirements, allowing the bank time to find their replacements, and then overlapping their time at the bank with the new senior managers. Because of their grace, we will be able to execute a smooth transition, and I am forever grateful to Trish, Ron, and Joe for their valued contributions to your company over many years and their willingness to help us transition to the future.

During the past year, your Board of Directors was very busy working on the strategic direction for your company and board governance. The results of their efforts have led to improved communication with management and greater accountability between themselves and to shareholders. In 2021, we also saw Directors Donald Fry and Patricia Lacy step down from their positions on the Board. We are grateful for the significant contributions that Tricia and Don made to your company and its shareholders over the years they served. We wish each of them well in their future endeavors.

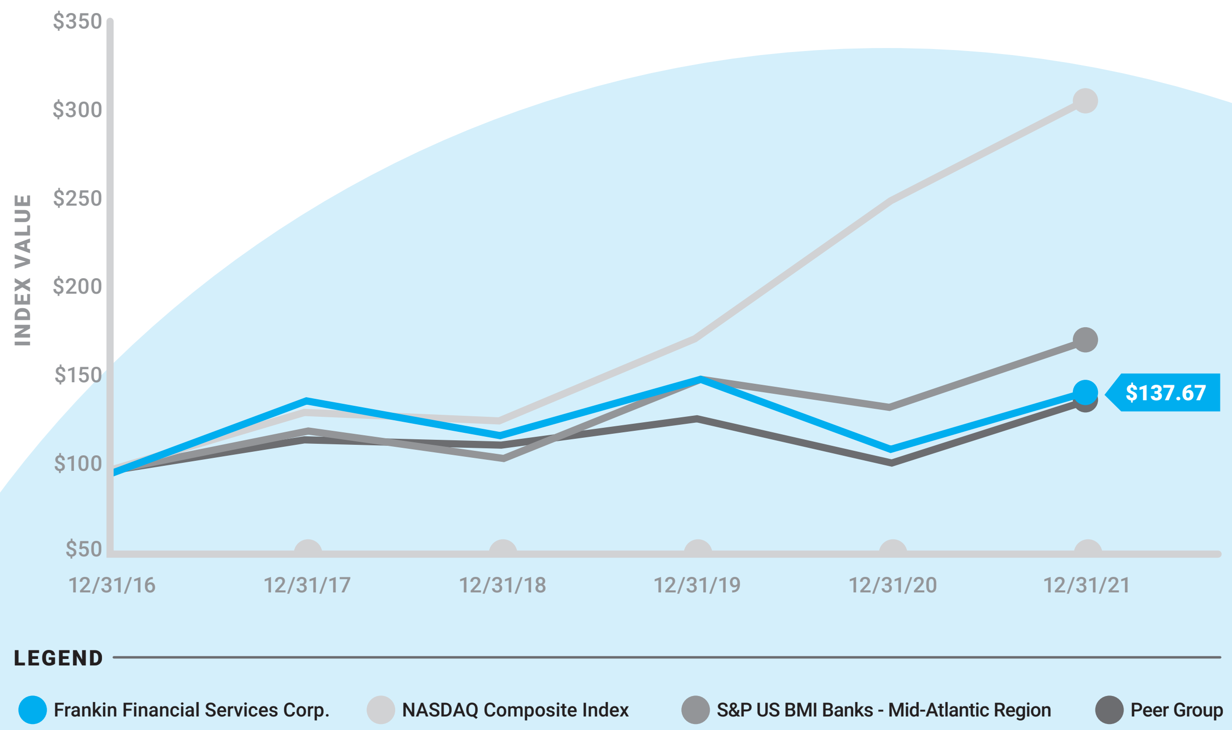
Your company continued its community involvement in 2021, donating $446 thousand to 248 local organizations and providing $200 thousand to assist 251 students through the EITC program, which funds private school scholarships for children in pre-Kindergarten through 12th grade whose families meet certain income criteria. Employees also gave generously of their time, volunteering over 1,882 hours to 47 service organizations.

I look to the future with great excitement. The bank is growing, not just in terms of assets, but in its capabilities to adapt to the changing times and needs of our customers. We also will be growing in terms of geography, as we open our first "out of state" office in Hagerstown, Maryland, in 2022. We have a great team of people who are energized by the changes and opportunities in front of us. While there are challenges, I do not see anything that can stop us from continuing to profitably grow the company to meet the future needs of our customers and communities, and bring value to you, our shareholders.

We appreciate your confidence in the Board and management, and we thank you for your investment and continued support of your company.

Sincerely yours,

Timothy G. Henry
President & CEO
Franklin Financial Services Corporation and F&M Trust



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CONSOLIDATED FINANCIAL HIGHLIGHTS 2021

(Dollars in thousands, except per share)	**2021**	2020
PERFORMANCE MEASUREMENTS		
Net income	**$ 19,616**	$ 12,800
Return on average assets	**1.17%**	0.91%
Return on average equity	**13.20%**	9.56%
Net interest margin, fully tax equivalent	**2.88%**	3.21%
SHAREHOLDERS' VALUE (PER COMMON SHARE)		
Diluted earnings per share	**$ 4.42**	$ 2.93
Basic earnings per share	**4.44**	2.94
Regular cash dividends paid	**1.25**	1.20
Book value	**35.36**	33.07
Market value*	**33.10**	27.03
Market value/book value ratio	**93.61%**	81.74%
Price/earnings multiple year-to-date	**7.49**	9.23
Current quarter dividend yield**	**3.87%**	4.44%
Dividend payout ratio	**28.16%**	40.83%
BALANCE SHEET HIGHLIGHTS		
Total assets	**$ 1,773,806**	$ 1,535,038
Investment and equity securities	**530,292**	397,331
Loans, net	**983,746**	992,915
Deposits	**1,584,359**	1,354,573
Shareholders' equity	**157,065**	145,176
SAFETY AND SOUNDNESS		
Risk-based capital ratio (Total)	**18.41%**	17.69%
Leverage ratio (Tier 1)	**8.52%**	8.69%
Common equity ratio (Tier 1)	**15.20%**	14.32%
Nonperforming loans/gross loans	**0.74%**	0.87%
Nonperforming assets/total assets	**0.42%**	0.57%
Allowance for loan loss/loans	**1.51%**	1.66%
Net loan recoveries/average loans	**0.02%**	0.02%
ASSETS UNDER MANAGEMENT		
Trust and Investment Services (fair value)	**$ 946,964**	$ 836,381
Held at third-party brokers (fair value)	**58,052**	112,624

* Based on the closing price of FRAF as quoted on the Nasdaq Capital Market. **Annualized.