SHAREHOLDER LETTER 2023

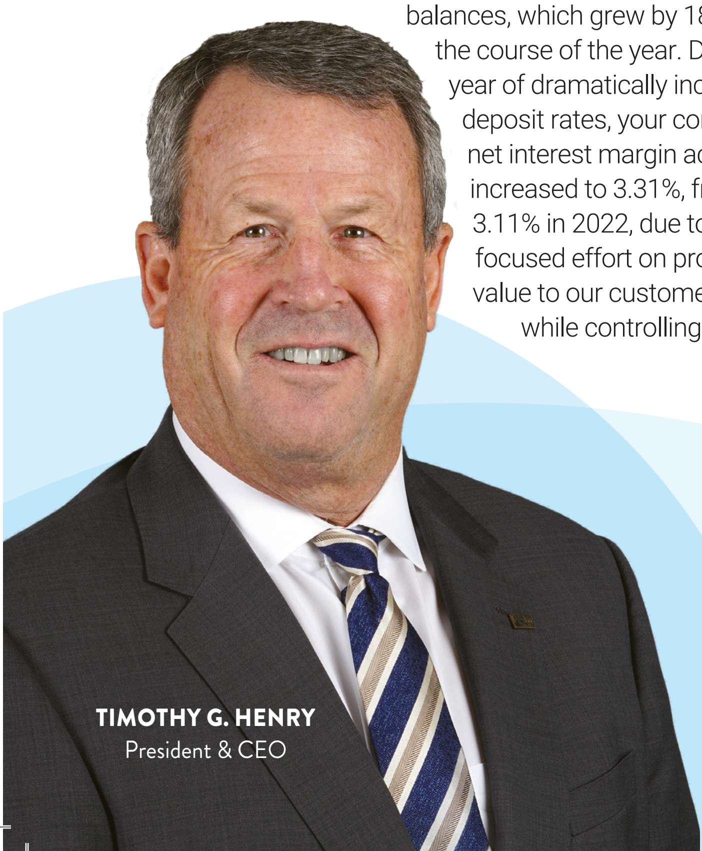
DEAR SHAREHOLDERS,

It is my pleasure to report to you the results of a successful 2023 year in which your company operated profitably in a very difficult operating year and, at the same time, made investments that will lead to the future growth and continuing success of Franklin Financial Services Corporation and its operating bank, F&M Trust.

For the year, the company posted a net income of $13.6 million after taking a charge of $1.1 million on a restructuring of the investment portfolio, and the termination and buyout of an unproductive land lease at a cost of $495 thousand. This compares to 2022 earnings of $14.9 million.

From this profit, we were able to return $5.6 million to our shareholders in the form of dividends (a dividend yield of 4.06%) and build shareholder equity in the company, further strengthening the company and positioning it for future growth.

Several factors were key to our earnings success in 2023. The year was highlighted by 19.6% growth in our loan balances, particularly due to growth in commercial loan balances, which grew by 18.3% over the course of the year. Despite a year of dramatically increasing deposit rates, your company's net interest margin actually increased to 3.31%, from 3.11% in 2022, due to a focused effort on providing value to our customers while controlling costs.



TIMOTHY G. HENRY
President & CEO

Residential mortgages also performed well for your company after a very slow start to the year brought on by the rapid increase in mortgage rates. In an atypical year, in which we held many of our adjustable-rate mortgages, fee income from the sale of mortgages was down but interest income was up.

Credit quality continues to be exceptionally good with non-performing loans just 0.01% of total loans. The bank's allowance for credit losses at 1.28% of total loans gives your company a significant buffer should credit quality deteriorate in the future due to economic challenges.

Fee income from our Wealth Management division (recently renamed from the prior name of "Investment and Trust Services") grew by 5.0% to $7.5 million, while assets under management remained over $1 billion.

We also saw a 15.5% increase in our debit card income as we expanded the total number of households we serve and provided our deposit customers with additional incentives for using our debit card.

Deposits were down for the year by 0.9%. While it is our goal to grow our deposit base, I am pleased that in a year when deposits shifted for the entire industry, due to rapidly rising rates and the Silicon Valley and First Republic issues in March 2023, our deposits stayed essentially flat. We see this to be a case of our customer base recognizing the value in banking with F&M Trust that goes beyond just the interest rate paid.

One of the reasons our deposit customers stay is that we take care of them. Though it might cost the bank to do so, 91.3% of our total deposits were either covered by FDIC insurance or collateralized. For the 8.7% of uninsured deposits, we have talked with those customers, and they have decided to leave those particular deposits uninsured for their own particular purposes. This high level of protected deposits protects both the customer and the bank from facing the liquidity issues faced by other banks around the country.

Shareholder equity increased by $17.9 million, maintaining the company's status as well capitalized. The increase in equity was due to two main factors.

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First, retained earnings increased by $8.1 million, and secondly, the charge under Accumulated Other Comprehensive Income (AOCI) improved $10.3 million due to changes we made in the investment portfolio, the natural amortization of the investment portfolio, and a slight retreat in interest rates toward the end of 2023.

Performance ratios for Return on Assets (ROA) and Return on Equity (ROE) softened in the year, dropping to .78% and 11.39% respectively from .83% and 11.64% in 2022. Reasons for this included the $1.1 million charge we took to reposition the investment portfolio (the cost of which should be earned back over 18 months), the $495 thousand charge to buy out a lease, and the additional provision for credit losses we had to make in the face of increased loan balances, which will be earned back over the life of the loans.

> **WE BELIEVE IN THE COMMUNITY BANK CONCEPT THAT YOU GIVE BACK TO THE COMMUNITIES WHERE YOU DO BUSINESS.**
>
> **TIMOTHY G. HENRY**
> President & CEO

There are other reasons for the drop in ROA and ROE as we realized a year's full cost in moving to our new headquarters at 1500 Nitterhouse Drive in Chambersburg and absorbed the full-year costs of new software systems, including Salesforce. We also added some necessary positions to our team of employees as we structure and prepare the company for future growth. While categorized as expenses, I view these changes as investments in our future. Without making these changes, we would have posted a higher net income this year but negatively impacted our long-term vision of being a strong and viable company that can bring solid returns to our 1,536 shareholders, to our communities and customers, and to our employees.

During 2023, our employees continued to give back to their communities with over 1,300 volunteer hours contributed to 62 different service organizations. Supporting our employees and our communities, your company donated $419 thousand to 255 organizations and over $192 thousand to fund 342 scholarships for children in pre-kindergarten and kindergarten through 12th grade. We believe in the community bank concept that you give back to the communities where you do business, and we live it in what we do and how we invest our time, talent, and treasure.

For our shareholders, your investment in Franklin Financial Services Corporation earned you a solid dividend return. In addition, we repurchased 83,058 shares, returning capital to our shareholders. Our stock price moved considerably, up and down, over the course of the year for several reasons. One, the financial industry as a whole did not see stock price appreciation as news events and the rapidly rising interest rates, as well as strength in the other investing sectors, captured the focus of investors. Your company is also faced with the challenge of having relatively little buy/sell action in the stock (stock liquidity), which can result in the stock price moving on very few shares traded. As we move forward, we will work to protect our dividend through solid earnings performance, and we will work to grow the bank to improve our stock liquidity, in order to provide our shareholders with a more stable stock price.

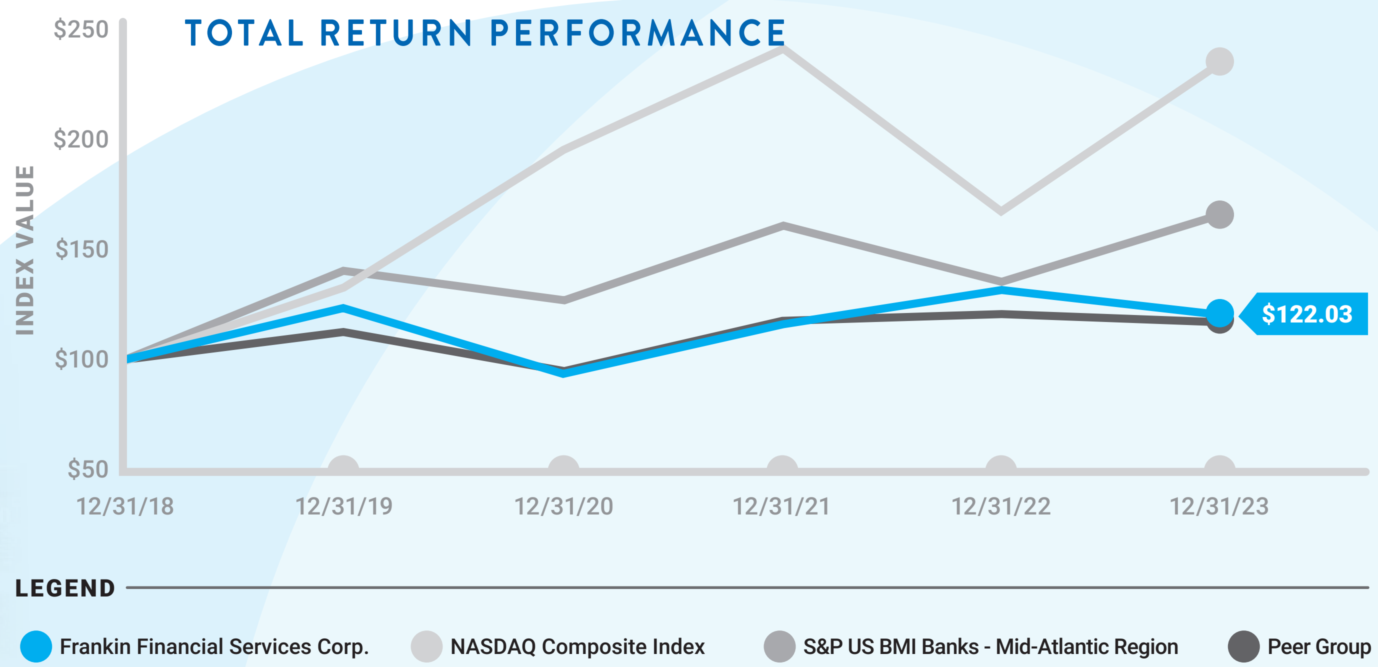
Our shareholders continue to be well represented by the current Board of Directors. Your Board is highly engaged in what the company is doing strategically. Continually educating themselves through in-person meetings, online training, and attending conferences, the Board has worked to improve its own governance while also laying out ambitious goals for the company that will provide for strong performance into the future. I appreciate the effort the Board, and its individual members, is making to ensure that we continue to become a better company.

By all measures, 2023 was a challenging year for financial institutions across the country, including your company. Yet, we were able to provide a good dividend return for our shareholders while also investing and preparing for the future. Significantly, we did all this without ignoring the communities that we serve. I, along with our staff and your Board of Directors, continue to be excited and enthused about the future of your company. We are making the necessary changes to meet the ever-changing needs of our customers while at the same time holding true to our values that unite our employees and make us valuable to those we serve.

Thank you for your past and ongoing support.

Sincerely yours,

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



American Heart Association


Chesapeake Bay Foundation

Habitat for Humanity


Hagerstown Tree Lighting


Army Heritage Center

F&M TRUST

Franklin Financial Services Corporation

CONSOLIDATED FINANCIAL HIGHLIGHTS 2023

(Dollars in thousands, except per share)	**2023**	2022
PERFORMANCE MEASUREMENTS		
Net income	**$ 13,598**	$ 14,938
Return on average assets	**0.78%**	0.83%
Return on average equity	**11.39%**	11.64%
Net interest margin, fully tax equivalent	**3.31%**	3.11%
SHAREHOLDERS' VALUE (Per common share)		
Diluted earnings per share	**$ 3.10**	$ 3.36
Basic earnings per share	**3.11**	3.38
Regular cash dividends paid	**1.28**	1.28
Book value	**30.23**	26.01
Market value*	**31.55**	36.10
Market value/book value ratio	**104.37%**	138.79%
Price/earnings multiple year-to-date	**10.18**	10.74
Current quarter dividend yield**	**4.06%**	3.55%
Dividend payout ratio	**41.15%**	37.88%
BALANCE SHEET HIGHLIGHTS		
Total assets	**$ 1,836,039**	$ 1,699,579
Investment and equity securities	**472,503**	487,247
Loans, net	**1,240,933**	1,036,866
Deposits	**1,537,978**	1,551,448
Shareholders' equity	**132,136**	114,197
SAFETY AND SOUNDNESS		
Risk-based capital ratio (Total)	**14.45%**	17.21%
Leverage ratio (Tier 1)	**9.01%**	8.95%
Common equity ratio (Tier 1)	**11.82%**	14.22%
Nonperforming loans/gross loans	**0.01%**	0.01%
Nonperforming assets/total assets	**0.01%**	0.01%
Allowance for loan loss/loans	**1.28%**	1.35%
Net loan (charge-offs) recoveries/average loans	**(0.02)%**	(0.15)%
ASSETS UNDER MANAGEMENT		
Wealth Management Services (Fair value)	**$ 1,094,747**	$ 904,317
Held at third-party brokers (Fair value)	**135,423**	116,398

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