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First Franklin Corporation

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THOMSON
FINANCIAL

Since
1883



Franklin Savings

Your Money Friends



Here Today,
~~Here~~ Gone Tomorrow

First Franklin Corporation

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Stockholder Information

2003 Earnings per share	\$0.85
2003 Dividends declared per share	\$0.31
Book value per share (1)	\$14.50
Market value per share (2)	\$17.97
Common shares outstanding (1)	1,642,558

(1) At December 31, 2003

(2) Nasdaq Closing Sale Price on December 31, 2003

Franklin Savings Locations

Corporate Office
4750 Ashwood Drive
Cincinnati, OH 45241
(513) 469-8000 FAX: (513) 469-5360

Branch Offices

Anderson
7944 Beechmont Avenue 45255
(513) 474-3750

Delhi
5015 Delhi Pike 45238
(513) 451-5252

Forest Park
Promenade Shopping Center
1100 West Kemper Road 45240
(513) 851-0400

O'Bryonville
2000 Madison Road 45208
(513) 321-0235

Roselawn
Valley Shopping Center
7615 Reading Road 45237
(513) 761-1101

Sharonville
11186 Reading Road 45241
(513) 563-6060

Western Hills
5791 Glenway Avenue 45238
(513) 471-7300

DirectTeller®
1-800-436-5100

www.franklinsavings.com

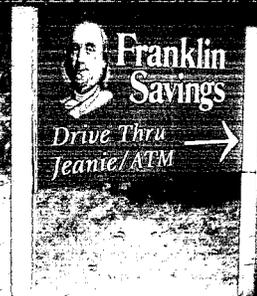


DirectTeller® is the registered Trademark of DirectTeller Systems, Inc.

Thomas H. Siemers
President - CEO



Glenway Drive-thru



Newly Constructed Glenway Bran



Renovated Roselawn Branch

Letter To Our Shareholders

Dear Shareholder:

First Franklin and our subsidiaries, Franklin Savings and DirectTeller, are committed to continuing in the footsteps of our founders. Their commitment to friendly, state of the art neighborhood banking with a personal and professional touch has brought our Company to new heights.

Two Thousand and Three saw a world filled with uncertainty and challenges; a rebounding economy, relatively lower interest rates and ongoing acts of terrorism. First Franklin, however, had a very positive year. A major part of this was made up of a 35% growth in earnings, fueled in large part by an increase in both net interest and noninterest income.

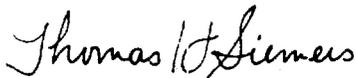
Our emphasis on development and growth is evidenced by the ongoing renovation and upgrading of our branches and systems. Last year saw the opening of the new Glenway branch in Western Hills and the ongoing improvements to our branch network. Our charge is to make banking better, easier, and more convenient for our customers. We continue to review our products and services in our attempts to be even more competitive in the market place. Franklin Savings strives to give our customers a "small" bank feeling with "big" bank services.

I would like to take this opportunity to welcome two new Board members to the Franklin Savings and Loan Board of Directors: Mr. John J. Kuntz, President and CEO of Intrieve Inc., and Mrs. Gretchen Schmidt, VP and COO of Franklin Savings and Loan.

Our theme "Here Today, Here Tomorrow" defines our commitment to you, our shareholder, as well as our customers, our employees, and the Cincinnati community.

We thank you for your continued confidence and support as we continue our dedication to meet and exceed our goals.

Respectfully submitted,



Thomas H. Siemers
President and CEO

SELECTED FINANCIAL DATA

	At December 31,				
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(Dollars in thousands)				
Financial Condition Data:					
Total assets	\$ 273,402	\$ 282,184	\$ 279,696	\$ 277,694	\$ 250,205
Cash	2,551	15,237	21,042	1,351	3,688
Loans receivable, net	199,937	187,754	202,555	206,040	167,601
Mortgage-backed securities					
Available-for-sale	13,036	17,939	14,097	30,993	39,342
Held-to-maturity	1,957	4,351	7,423	11,145	13,596
Investments					
Available-for-sale	43,211	45,935	24,328	19,940	19,197
Deposit accounts	221,666	219,084	208,938	185,530	191,673
Borrowings	25,709	37,436	46,488	68,978	37,110
Stockholders' equity	23,814	23,427	22,204	21,312	19,755
For the year ended December 31,					
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(Dollars in thousands except per share data)				
Operations Data:					
Total interest income	\$ 14,835	\$ 17,054	\$ 18,938	\$ 18,831	\$ 16,131
Total interest expense	8,787	11,597	13,430	12,672	10,263
Net interest income	6,048	5,457	5,508	6,159	5,868
Provision for loan losses	236	105	65	84	(103)
Net interest income after provision for loan losses	5,812	5,352	5,443	6,075	5,971
Noninterest income	2,092	2,059	1,147	670	646
Noninterest expense	5,729	5,829	4,909	4,577	4,520
Income before taxes	2,175	1,582	1,681	2,168	2,097
Provision for federal income tax	735	516	534	707	686
Net income	<u>\$ 1,440</u>	<u>\$ 1,066</u>	<u>\$ 1,147</u>	<u>\$ 1,461</u>	<u>\$ 1,411</u>
Other Data:					
Interest rate spread during period	2.12%	1.84%	1.79%	2.02%	2.19%
Interest rate spread at end of period	2.39	2.15	1.78	2.01	2.30
Return on assets	0.52	0.38	0.42	0.56	0.59
Return on equity	6.05	4.72	5.18	7.22	6.95
Dividend payout ratio	35.30	45.87	42.22	33.16	35.08
Equity to assets ratio	8.71	8.30	7.94	7.67	7.90
Ratio of average interest-earning assets to average interest-bearing liabilities	105.14	104.76	105.58	107.38	107.40
Non-performing assets as a percent of total assets at end of period	1.30	0.86	0.43	0.37	0.37
Full service offices	7	7	7	6	6
Per Share Data:					
Net income per common share Basic	<u>\$0.88</u>	<u>\$0.65</u>	<u>\$0.71</u>	<u>\$0.90</u>	<u>\$0.85</u>
Diluted	<u>\$0.85</u>	<u>\$0.65</u>	<u>\$0.71</u>	<u>\$0.90</u>	<u>\$0.85</u>
Book value per common share	<u>\$14.50</u>	<u>\$14.33</u>	<u>\$13.75</u>	<u>\$13.21</u>	<u>\$12.12</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

First Franklin Corporation ("First Franklin" or the "Company") is a savings and loan holding company that was incorporated under the laws of the State of Delaware in September 1987. The Company acquired all of the common stock issued in connection with the conversion of the Franklin Savings and Loan Company ("Franklin") from the mutual to stock form of ownership, which was completed on January 25, 1988.

First Franklin's mission is to maximize the value of the Company for shareholders by adhering to the following values:

1. Exceed customers' expectations regarding service and products.
2. Achieve success through our employees' efforts.
3. Shareholder satisfaction will enable us to continue serving our customers.
4. Support the communities we serve.
5. Combine business success with integrity.

The Company's operating philosophy is to be an efficient and profitable financial services organization with a professional staff committed to maximizing shareholder value by structuring and delivering quality services that attract customers and satisfy both their needs and preferences. Management's goal is to maintain profitability and a strong capital position by pursuing the following strategies: (i) emphasizing real estate lending in both the residential and commercial mortgage markets, (ii) managing liability pricing, (iii) controlling interest rate risk, (iv) controlling operating expenses, (v) using technology to improve employee efficiency, and (vi) maintaining asset quality.

As a Delaware corporation, the Company is authorized to engage in any activity permitted by the Delaware General Corporation Law. As a unitary savings and loan holding company, the Company is subject to examination and supervision by the Office of Thrift Supervision ("OTS"), although the Company's activities are not limited by the OTS as long as certain conditions are met. The Company's assets consist of cash, interest-earning deposits, the building in which the Company's corporate offices are located and investments in Franklin, DirectTeller Systems Inc. ("DirectTeller") and Financial Institutions Partners III, L.P. ("FIP III").

Franklin is an Ohio chartered stock savings and loan headquartered in Cincinnati, Ohio. It was originally chartered in 1883 as the Green Street Number 2 Loan and Building Company. The business of Franklin consists primarily of attracting deposits from the general public and using those deposits, together with borrowings and other funds, to originate real estate loans and purchase investments. Franklin operates seven banking offices in Hamilton County, Ohio through which it offers a full range of consumer banking services, including mortgage loans, home equity and commercial lines of credit, credit and debit cards, checking accounts, auto loans, savings accounts, automated teller machines, a voice response telephone inquiry system and an internet-based banking system which allows its customers to transfer funds between financial institutions, pay bills, transfer funds between Franklin accounts, download account and transaction information into financial management software programs and inquire about account balances and transactions. To generate additional fee income and enhance the products and services available to its customers, Franklin also offers annuities, mutual funds and discount brokerage services in its offices through an agreement with a third party broker dealer.

Franklin has one wholly owned subsidiary, Madison Service Corporation ("Madison"). Madison was formed in 1972 to allow Franklin to diversify into certain types of business that, by regulation, savings and loans were unable to enter. At the present time, Madison's assets consist solely of cash and interest-earning deposits. Its only source of income is the interest earned on these deposits.

First Franklin owns 51% of DirectTeller's outstanding common stock. DirectTeller was formed in 1989 by the Company and DataTech Services Inc. to develop and market a voice response telephone inquiry system to allow financial institution customers to access information about their accounts via the telephone and a facsimile machine. Franklin currently offers this service to its customers. The inquiry system is currently in operation at Intrieve Inc., a computer service bureau which offers the DirectTeller system to the financial institutions it services. The agreement with Intrieve gives DirectTeller a portion of the profits generated by the use of the inquiry system by Intrieve's clients. During 2003, DirectTeller substantially completed development of a Customer Relationship Management (CRM) system which is designed to be integrated with a "Voice over Internet Protocol (VOIP)" telephone system. Franklin upgraded to the state-of-the-art VOIP telephone system and began using the CRM program during 2003.

FIP III is a limited partnership that invests primarily in equity securities of publicly-traded financial institutions. The Company has invested \$1.5 million in the partnership. At December 31, 2003, the Company's pro-rata interest in the partnership, as estimated by Hovde Financial Inc., the general partner, had a net asset value of approximately \$2.12 million. There is not a readily determinable market for First Franklin's ownership interest in this partnership.

In January 2002, management and the Board of Directors reviewed the Company's strategic plan and established various strategic objectives for the next three years. The primary objectives of this plan are profitability, independence, capital adequacy and enhancing shareholder value. These objectives will be accomplished through commercial real estate loan growth, the use of technology to improve efficiency and/or customer service and maintaining interest rate risk at or above levels required by the OTS. In the fall of 2004, management and the directors will review and update the Company's strategic plan.

In November 2002, Franklin sold its branch office located at 5119 Glenway Avenue, Cincinnati at a profit of approximately \$303,000. That office was moved approximately one mile to 5791 Glenway Avenue. The new office has higher visibility, a drive-thru window, safe deposit boxes and an ATM, which were not possible at the previous location. Franklin renovated its office located at 7615 Reading Road, in the Valley Shopping Center, adding an ATM and drive-thru window in 2003. During 2004, Franklin intends to refurbish two additional offices with minor interior cosmetic changes and the installation of ATMs. When this is completed, all offices will have drive-thru facilities and ATMs.

Statements included in this document which are not historical or current facts are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results. Factors that could cause financial performance to differ materially from that expressed in any forward-looking statement include, but are not limited to, credit risk, interest rate risk, competition, changes in the regulatory environment and changes in general business and economic trends.

Since the results of operations of Madison, DirectTeller and FIP III have not been material to the operations and financial condition of the Company, the following discussion focuses primarily on Franklin.

ASSET/LIABILITY MANAGEMENT

Asset and liability management is the process of balancing the risk and the return factors of a variety of financial decisions. Decisions must be made on the appropriate level of interest rate risk, prepayment risk and credit risk. In addition, decisions must be made on the pricing and duration of assets and liabilities and the amount of liquidity. The overall objective of the Company's asset and liability management policy is to maximize long-term profitability and return to its investors.

Managing interest rate risk is fundamental to banking. Financial institutions must manage the inherently different maturity and repricing characteristics of their lending and deposit products to achieve a desired level of earnings and to limit their exposure to changes in interest rates. Franklin is subject to interest rate risk to the degree that its interest-bearing liabilities, consisting principally of customer deposits and borrowings, mature or reprice more or less frequently, or on a different basis, than its interest-earning assets, which consist of mortgage loans, mortgage-backed securities, consumer loans, corporate debt securities and U.S. Treasury and agency securities. While having liabilities that mature or reprice more rapidly than assets may be beneficial in times of declining interest rates, such an asset/liability structure may have the opposite effect during periods of rising interest rates. Conversely, having assets that reprice or mature more rapidly than liabilities may adversely affect net interest income during periods of declining interest rates.

The degree of interest rate risk an instrument is subject to is determined by several factors. These factors include: lag, repricing, basis, prepayment, and lifetime cap risk. These risks are described in further detail in the following paragraphs.

Lag risk. Lag risk results from the inherent timing difference between the repricing of adjustable-rate assets and liabilities. Lag risk can produce short-term volatility in net interest income during periods of interest rate movements even though the effects of this lag generally balance out over time. One example of lag risk is the repricing of assets indexed to the treasury constant maturity ("CMT"). The CMT index is based on a moving average of rates outstanding during the previous twelve months. A sharp movement in interest rates in a month will not be fully reflected in the index for twelve months resulting in a lag in the repricing of loans and securities based on this index. This contrasts with borrowings which generally reprice monthly, based on current market interest rates.

Repricing risk. Repricing risk is caused by the mismatch in the maturities and/or repricing periods between interest-earning assets and interest-bearing liabilities.

Basis risk. Basis risk results from assets and liabilities reacting differently to interest rate movements due to their dependency on different indices. For example, most of Franklin's adjustable-rate loans are indexed to the Prime rate or Treasury based indexes such as the CMT, while the rates on borrowings are normally derived from the London Interbank Offered Rates ("LIBOR") and deposit rates are normally determined by local competition. This results in basis risk since the loan indices may move at different rates or in different directions than the indices associated with borrowings or deposits.

Prepayment risk. Prepayment risk results from the ability of customers to pay off their loans prior to maturity. Generally, prepayments increase in falling interest rate environments and decrease in rising interest rate environments. Falling interest rate environments normally result in the prepayment and refinancing of existing fixed- and adjustable-rate loans to lower coupon, fixed-rate mortgage loans. This phenomenon, when combined with our policy of selling most of our fixed-rate loan production, may make it difficult to increase or even maintain the size of our loan portfolio during these periods. These additional sales may generate gains on sale, offsetting some of the reduction in the net interest margin. In rising interest rate environments, the decline in prepayments would normally result in an increase in the size of the loan portfolio, and may increase the percentage of adjustable-rate loans that are originated.

Lifetime cap risk. A lifetime interest rate cap on adjustable-rate loans held in the portfolio introduces another element of interest rate risk to earnings. In periods of rising interest rates, it is possible for the fully indexed interest rate (index rate plus the margin) to exceed the lifetime interest rate cap. This feature prevents the loan from repricing to a market rate, thus adversely impacting net interest income in periods of relatively high interest rates. Typically, the lifetime cap is 600 basis points above the initial rate. The lifetime caps on our existing loans would not have a material adverse effect on net interest income unless interest rates increased substantially from current levels.

To mitigate the impact of changes in market interest rates on our interest-earning assets and interest-bearing liabilities, we attempt to manage the amounts and maturities of these assets and liabilities. A key component of this strategy is the origination and retention of short-term and adjustable-rate assets and the origination and sale of fixed-rate loans. We retain short-term and adjustable-rate assets because they have repricing characteristics that more closely match the repricing characteristics of our liabilities.

To further mitigate the risk of timing differences in the repricing of assets and liabilities, our interest-earning assets are matched with interest-bearing liabilities that have similar repricing characteristics. For example, the interest rate risk of holding fixed-rate loans is managed with long-term deposits and borrowings, and the risk of holding ARMs is managed with short-term deposits and borrowings. Periodically, mismatches are identified and addressed by adjusting the repricing characteristics of our interest-bearing liabilities.

During 2003, many of Franklin's deposit customers opted to pursue short-term investments so they would be poised to take advantage of rates when they rise. As a result, Franklin experienced a \$4.81 million increase in low cost core deposits. It is anticipated that when deposit rates do increase, some of these core deposit balances will shift to certificates or other higher-yielding investments. The low rates also had an effect on Franklin's assets as consumers took advantage of the low rates to lock in long-term fixed-rate mortgages and yields on adjustable-rate loans declined. Franklin sold \$49.73 million of fixed-rate mortgages during 2003.

The following table utilizes the "net portfolio value (NPV)" methodology to illustrate the impact on Franklin's net interest income of specified interest rate scenarios at December 31, 2003. NPV represents the market value of portfolio equity and is equal to the market value of assets less the market value of liabilities. Management and the Board of Directors monitor the level of NPV on a quarterly basis and consider changes in the methods used to manage the rate sensitivity and repricing characteristics of balance sheet components, to maintain acceptable levels of change in NPV and net interest income in the event of changes in interest rates. The Company's Interest Rate Risk Policy has established minimum acceptable NPV levels under various hypothetical instantaneous changes in market interest rates. As of December 31, 2003, the Company was within these policy limits and was rated in the most favorable interest rate risk category under OTS guidelines.

Change in interest rates (basis points)	<u>Net interest income</u>			<u>Net portfolio value</u>		
	<u>Estimated \$ value</u>	<u>\$ Change from constant</u>	<u>% Change from constant</u>	<u>Estimated \$ value</u>	<u>NPV ratio</u>	<u>Policy guidelines</u>
		(Dollars in thousands)				
+300	\$6,421	\$ (430)	(6.28)%	\$ 15,889	6.03%	4.00%
+200	6,667	(184)	(2.69)	19,163	7.11	5.00
+100	6,810	(41)	(0.60)	21,930	7.98	6.00
0	6,851			24,573	8.77	6.75
-100	6,696	(155)	(2.26)	23,371	8.29	7.50

The above table sets forth the change in net interest income that would result from a change in Franklin's net portfolio value in the event of an instantaneous shift in the Treasury yield curve of plus or minus 100, 200 and 300 basis points. An NPV has not been calculated for a change of minus 200 or 300 basis points because it is not possible for rates to decline 200 or 300 basis points from current levels. The changes in the NPV and net interest income shown in the table were calculated using a simulation program. This simulation uses various assumptions, which may or may not prove to be accurate, concerning interest rates, loan prepayment rates, growth, and the rollover of maturing assets and liabilities consistent with the current economic environment. These exposure estimates are not exact measures of Franklin's actual interest rate risk, but they are indicators of a sensitivity to changes in rates.

An objective of interest rate risk management is to maintain an appropriate balance between the stable growth of income and the risks associated with maximizing income through interest sensitivity imbalances. No single method can accurately measure the impact of changes in interest rates on net interest income, so in addition to the NPV method, the Company also measures the difference, or "gap," between the amount of assets and liabilities scheduled to reprice within the same period. The gap is expressed as a percentage of assets, and is based on certain assumptions. Generally, the lower the percentage, the less sensitive the Company's earnings are to interest rate changes. A positive gap means an excess of assets over liabilities repricing during the same period.

Certain shortcomings are inherent in the "gap" method of analysis presented below. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may have different basis risk which may cause them to react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while others may lag behind changes in market interest rates. The table below reflects estimates as to the periods to repricing at a particular point in time. Among the factors considered are current trends and historical repricing experience with respect to particular or similar products. For example, savings, money market and NOW accounts may be withdrawn at any time, but based on historical experience, it is assumed that all customers will not withdraw their funds on any given day, even if market interest rates change substantially.

The following table sets forth Franklin's interest rate sensitivity gap as of December 31, 2003. As shown below, the one year cumulative gap is \$52.43 million. This positive gap indicates that more assets are scheduled to reprice during the next year than liabilities. Generally, this would indicate that net interest income would decrease as rates decline and, conversely, increase as rates rise. A prolonged period of falling interest rates, such as experienced during 2003, could be expected to adversely affect the Company's earnings while improving its interest rate risk position.

	<u>3 months or less</u>	<u>4 to 6 months</u>	<u>7 to 12 months</u>	<u>1 to 3 years</u>	<u>3 to 5 years</u>	<u>5 to 10 years</u>	<u>10 to 20 years</u>	<u>>20 years</u>	<u>Total</u>
Assets:									
(Dollars in thousands)									
Real estate loans;									
One- to four-family									
Adjustable-rate	\$15,879	14,169	20,803	22,358	-	-	-	-	73,209
Fixed-rate	2,348	2,170	3,883	11,207	6,939	8,571	3,961	674	39,753
Construction loans	1,294	-	-	-	-	-	-	-	1,294
Multi-family and non-residential									
Adjustable-rate	4,586	4,135	7,074	16,838	6,379	-	-	-	39,013
Fixed-rate	812	760	1,377	3,968	2,237	833	-	-	9,987
Consumer loans	19,616	137	251	752	198	-	-	-	20,954
Commercial loans	13,656	-	-	-	-	-	-	-	13,656
Mortgage-backed securities	5,409	3,173	5,346	767	159	51	1	-	14,906
Investments	4,949	1,011	35	1,694	775	15,210	24,639	-	48,313
Total rate sensitive assets	\$68,549	25,555	38,769	57,584	16,687	24,665	28,601	674	261,084
Liabilities:									
Fixed maturity deposits	\$19,561	16,725	17,960	58,525	24,295	-	-	-	137,066
Transaction accounts	1,198	1,115	2,003	5,664	3,186	3,124	917	54	17,261
Money market deposit accounts	3,102	2,806	4,836	12,021	5,396	3,802	583	11	32,557
Passbook accounts	2,099	1,954	3,510	9,926	5,583	5,475	1,608	96	30,251
Borrowings	2,333	322	923	3,213	6,527	10,420	821	-	24,559
Total rate sensitive liabilities	\$28,293	22,922	29,232	89,349	44,987	22,821	3,929	161	241,694
Cumulative gap	<u>\$40,256</u>	<u>42,889</u>	<u>52,426</u>	<u>20,661</u>	<u>(7,639)</u>	<u>(5,795)</u>	<u>18,877</u>	<u>19,390</u>	
Cumulative gap as a percentage of total assets	14.86%	15.83	19.36	7.63	(2.82)	(2.14)	6.97	7.16	

In preparing the above table, it has been assumed that (i) adjustable-rate one- to four-family residential mortgage loans and mortgage-backed securities with a current market index (Treasury yields, LIBOR, prime) will prepay at an annual rate of 8% to 31%; (ii) adjustable-rate one- to four-family residential mortgage loans with a lagging market index (cost of funds, national average contract rate) will prepay at an annual rate of 12% to 21%; (iii) fixed-rate one- to four-family residential mortgage loans will prepay at annual rates of 6% to 60% depending on the stated interest rate and contractual maturity of the loan; (iv) the decay rate on deposit accounts is 1% to 37% per year; and (v) fixed-rate certificates of deposit will not be withdrawn prior to maturity.

ASSET QUALITY/CREDIT RISK

Credit risk refers to the potential for losses on assets due to a borrower's default or to a decline in the value of the collateral supporting that asset. Franklin has taken various steps to reduce credit risk and to maintain the quality of its assets. In the past, Franklin's lending program has been focused towards relatively low risk single-family first mortgage loans, which are underwritten using standards acceptable to the Federal Home Loan Mortgage Corporation. During the past few years, Franklin has begun to place more emphasis on originating multi-family and commercial real estate mortgage loans and home equity and commercial lines of credit. Generally, these types of loans have higher risk characteristics than single-family mortgage loans. As part of an on-going independent Quality Control program, a sample of the loans originated are reviewed by the Compliance Officer, on a monthly basis, to confirm that underwriting standards have been followed. The results of these reviews are reported to the Chief Executive Officer.

Franklin closely monitors delinquencies as a means of maintaining asset quality and reducing credit risk. Collection efforts begin with the delivery of a late notice fifteen days after a payment is due. All borrowers whose loans are more than thirty days past due are contacted by the Collection Manager in an effort to correct the problem.

The Asset Classification Committee meets at least quarterly to determine if all assets are being valued fairly and properly classified for regulatory purposes. All mortgage loans in excess of \$500,000, loans to borrowers with aggregate loans outstanding exceeding \$1,000,000, consumer loans and home equity lines of credit in excess of \$150,000, commercial lines of credit in excess of \$250,000 and repossessed assets are reviewed annually. In addition, any loan delinquent more than ninety days is reviewed quarterly. Other assets are reviewed at the discretion of the committee members.

Non-performing assets include loans that have been placed on non-accrual status, accruing loans which are ninety days or more past due and repossessed assets. Loans are placed on non-accrual status when the collection of principal and/or interest becomes doubtful or legal action to foreclose has commenced. In addition, all loans, except one- to four-family residential mortgage loans, are placed on non-accrual status when the uncollected interest becomes greater than ninety days past due. Consumer loans more than ninety days delinquent are charged against the consumer loan allowance for loan losses unless payments are currently being received and it appears likely that the debt will be collected.

The following table sets forth Franklin's non-performing assets as of the dates indicated.

	<u>At December 31.</u>	
	<u>2003</u>	<u>2002</u>
	(Dollars in thousands)	
Non-accruing loans	\$ 2,616	1,745
Accruing loans ninety days or more past due	734	524
Repossessed assets	210	160
Total non-performing assets	<u>\$ 3,560</u>	<u>2,429</u>

As indicated by the table above, non-performing assets increased \$1.13 million during 2003. The Company believes that this increase is the result of the economic conditions which existed during 2003. During 2004, the Company will continue to monitor the level of these assets and strive to reduce them.

Franklin maintains an allowance for possible losses on loans and repossessed assets. The Asset Classification Committee is responsible for maintaining this allowance at a level sufficient to provide for estimated losses based on known and inherent risks in the loan portfolio. General reserves are based on the Committee's continuing analysis of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, actual loan loss experience, current and anticipated economic conditions, and detailed analysis of individual loans for which full collectibility may not be assured.

When available information confirms that specific loans or portions thereof are uncollectible, these loans are charged-off or specific reserves are established for the amount of the estimated loss. The existence of some or all of the following criteria will generally confirm that a loan is uncollectible and a loss may be incurred: (i) the loan is significantly delinquent and the borrower has not evidenced the ability or intent to bring the loan current; (ii) the Company has no recourse to the borrower, or if it does, the borrower has insufficient assets to pay the debt; or (iii) the fair market value of the loan collateral is significantly below the current loan balance and there is no near-term prospect for improvement.

The following table is an analysis of the loss reserve activity on loans and repossessed assets during the past two years. In management's opinion, to the extent that economic and regulatory conditions remain constant, these reserves are adequate to protect Franklin against reasonably foreseeable losses.

	<u>Years ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
	(Dollars in thousands)	
Beginning balance	\$ 1,203	1,107
Charge-offs		
One- to four-family	40	-
Multi-family	-	9
Non-residential	-	-
Consumer	-	-
	<u>40</u>	<u>9</u>
Recoveries		
One- to four-family	-	-
Multi-family	-	-
Non-residential	-	-
Consumer	-	-
	<u>-</u>	<u>-</u>
Net charge-offs	40	9
Additions charged to operations	<u>236</u>	<u>105</u>
Ending balance	<u>\$ 1,399</u>	<u>1,203</u>
Ratio of net charge-offs to average loans outstanding	<u>0.021%</u>	<u>0.005%</u>
Ratio of net charge-offs to average non-performing assets	<u>1.34%</u>	<u>0.50%</u>

RESULTS OF OPERATIONS

The Company had net income of \$1.44 million for the year ended December 31, 2003. This represents a 0.52% return on average assets and a 6.05% return on average stockholders' equity. Book value per share at December 31, 2003 was \$14.50. Net income for the year ended December 31, 2002 was \$1.07 million after recognizing a \$356,000 after tax loss on the sale of a WorldCom bond held in Franklin's investment portfolio. This represents a 0.38% return on average assets and a 4.72% return on average stockholders' equity. Net income for 2002 before the loss on the WorldCom bond was \$1.42 million, resulting in a 0.51% return on average assets and a 6.30% return on average stockholders' equity. Net income for the year ended December 31, 2001 was \$1.15 million and returns on average assets and average equity for 2001 were 0.42% and 5.18%, respectively. The \$593,000 increase in 2003 net income before taxes when compared to 2002 reflects increases in net interest income of \$591,000, profits on the sale of loans and investment securities of \$244,000, the provision for loan losses of \$132,000 and operating expenses of \$440,000. 2002 income included the \$540,000 pretax loss on the WorldCom bond and a \$303,000 profit on the sale of an office building.

Net Interest Income. Net interest income, the difference between interest earned on interest-earning assets and the interest paid on interest-bearing liabilities, is the Company's primary source of earnings. The amount of net interest income depends on the volume of interest-earning assets and interest-bearing liabilities and the rates earned or paid on those assets or liabilities. The following table presents the interest income earned on average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities and their resultant costs. Average balances shown are the average of the month end balances for each category. Non-accruing loans have been included as loans carrying a zero yield and the unrealized gain or loss on available-for-sale securities has been excluded from the calculation of the average outstanding balance. The table indicates that net interest income increased 10.8% during 2003 to \$6.05 million from \$5.46 million in 2002 due to an increase in net earning assets from \$12.14 million in 2002 to \$12.93 million for 2003 and an increase in the interest rate spread from 1.84% for 2002 to 2.12% for 2003.

	2003			2002			2001		
	Average outstanding balance	Interest earned/paid	Yield/rate	Average outstanding balance	Interest earned/paid	Yield/rate	Average outstanding balance	Interest earned/paid	Yield/rate
(Dollars in thousands)									
Interest-earning assets:									
Loans receivable (1)	\$ 192,034	11,834	6.16%	194,724	13,716	7.04%	204,831	15,287	7.46%
Mortgage-backed securities(2)	18,291	775	4.24	21,775	1,127	5.18	29,675	1,963	6.61
Investments (2)	50,272	2,065	4.11	47,046	2,032	4.32	27,813	1,443	5.19
FHLB stock	4,047	161	3.98	3,877	179	4.62	3,667	245	6.68
Total interest-earning assets	<u>\$ 264,644</u>	<u>14,835</u>	<u>5.61%</u>	<u>267,422</u>	<u>17,054</u>	<u>6.38%</u>	<u>265,986</u>	<u>18,938</u>	<u>7.12%</u>
Interest-bearing liabilities:									
Demand and NOW deposits	\$53,184	575	1.08%	40,971	726	1.77%	28,334	545	1.92%
Savings deposits	30,544	272	0.89	26,809	568	2.12	21,745	599	2.75
Certificates of deposit	136,793	6,071	4.44	145,982	7,676	5.26	147,038	8,753	5.95
Borrowings	31,189	1,869	5.99	41,518	2,627	6.33	54,804	3,533	6.45
Total interest-bearing liabilities	<u>\$ 251,710</u>	<u>8,787</u>	<u>3.49%</u>	<u>255,280</u>	<u>11,597</u>	<u>4.54%</u>	<u>251,921</u>	<u>13,430</u>	<u>5.33%</u>
Net interest income		<u>\$ 6,048</u>			<u>5,457</u>			<u>5,508</u>	
Interest rate spread			<u>2.12%</u>			<u>1.84%</u>			<u>1.79%</u>
Net earning assets	<u>\$ 12,934</u>			<u>12,142</u>			<u>14,065</u>		
Net yield on average interest-earning assets			<u>2.29%</u>			<u>2.04%</u>			<u>2.07%</u>
Average interest-earning assets to average interest-bearing liabilities		<u>1.05%</u>			<u>1.05%</u>			<u>1.06%</u>	

(1) Calculated net of deferred loan fees, loans in process and loss reserves.

(2) Investments classified as available-for-sale included at amortized cost, not fair value.

Rate/Volume Analysis. The most significant impact on the Company's net interest income between periods relates to the interaction of changes in the volume of, and rates earned or paid on, interest-earning assets and interest-bearing liabilities. The following rate/volume analysis describes the extent to which changes in interest rates and the volume of interest related assets and liabilities have affected net interest income during the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, the information is provided on changes attributable to (i) changes in volume (change in volume multiplied by prior year's rate), (ii) changes in rate (change in rate multiplied by prior year's volume) and (iii) total changes in rate and volume. The combined effect of changes in both rate and volume, which cannot be separately identified, has been allocated proportionately to the change due to volume and the change due to rate.

During 2003, net interest income increased \$591,000 compared to a \$52,000 decrease during 2002. The income earned on assets decreased \$2.22 million, due to a decline in the yield earned on total interest-earning assets from 6.38% to 5.61%. The decline in the yield on interest-earning assets reflects a decrease in the yield on loans from 7.04% to 6.16%, a decrease in the yield on mortgage-backed securities from 5.18% to 4.24% and a decrease in the yield on investments from 4.32% to 4.11%. The decline in the yield earned on interest-earning assets during 2003 is due to the overall decrease in market interest rates. During the same period, however, interest expense decreased \$2.81 million due to a decrease in the average cost of funds from 4.54% to 3.49%. The decrease in the average cost of funds reflects a decrease in the cost of certificates from 5.26% to 4.44% and decreases in the cost of borrowings, savings deposits and demand deposit accounts.

	<u>2003 vs 2002</u>			<u>2002 vs 2001</u>		
	Increase (decrease) due to	Total increase (decrease)	Total increase (decrease)	Increase (decrease) due to	Total increase (decrease)	Total increase (decrease)
	Volume	Rate	(Dollars in thousands)	Volume	Rate	(Dollars in thousands)
Interest income attributable to:						
Loans receivable (1)	\$ (187)	(1,695)	(1,882)	(734)	(837)	(1,571)
Mortgage-backed securities	(166)	(186)	(352)	(461)	(375)	(836)
Investments	115	(82)	33	777	(188)	589
FHLB stock	8	(26)	(18)	15	(81)	(66)
Total interest income	\$ (230)	(1,989)	(2,219)	(403)	(1,481)	(1,884)
Interest expense attributable to:						
Demand and NOW deposits	\$ 490	(641)	(151)	220	(39)	181
Savings deposits	94	(390)	(296)	(3,591)	3,560	(31)
Certificates of deposit	(462)	(1,143)	(1,605)	(62)	(1,014)	(1,076)
Borrowings	(625)	(133)	(758)	(842)	(64)	(906)
Total interest expense	\$ (503)	(2,307)	(2,810)	(4,275)	2,443	(1,832)
Increase (decrease) in net interest income	\$ 273	318	591	3,872	(3,924)	(52)

(1) Includes non-accruing loans.

Average Yields and Rates Paid. The following table sets forth the average yields earned on loans and other investments, and the average rate paid on deposit accounts and borrowings and the interest rate spread at the end of each of the past three years.

	<u>At December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Weighted average yield on:			
Loans receivable (1)	5.80%	6.71%	7.25%
Mortgage-backed securities	3.81	4.66	6.06
Investments (2)	4.14	4.38	3.77
FHLB stock	4.00	4.50	5.75
Combined weighted average yield on interest-earning assets	5.39	6.04	6.60
Weighted average rate paid on:			
Demand and NOW deposits	0.99	1.25	1.63
Savings deposits	0.74	1.26	2.31
Certificates of deposit	3.65	4.82	5.47
Borrowings	5.33	6.06	6.28
Combined weighted average rate paid on interest-bearing liabilities	3.00	3.89	4.82
Interest rate spread	2.39%	2.15%	1.78%

(1) Includes impact of non-accruing loans.

(2) Yields reflected have not been calculated on a tax equivalent basis.

Provision for Loan Losses. Management determines the amount of the loan loss provision each year based on previous loan loss experience, current economic conditions, the composition of the loan portfolio and the current level of loan loss reserves. Charges against current operations for loan loss reserves were \$236,000 for 2003, \$104,500 for 2002 and \$65,175 for 2001. Assets classified as substandard and loss at December 31, 2003 increased by 9.15% to \$4.65 million, while non-performing assets increased by 46.56% to \$3.56 million. It is management's opinion that the level of reserves at December 31, 2003 is adequate to protect Franklin against reasonably foreseeable losses.

The foregoing statement is a "forward looking" statement within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended. Factors that could affect the adequacy of the allowance for loan losses include, but are not limited to, the following: (i) changes in the local and national economy which may negatively impact the ability of borrowers to repay their loans and which may cause the value of real estate and other properties that secure outstanding loans to decline; (ii) unforeseen adverse changes in circumstances with respect to certain large borrowers; (iii) decreases in the value of collateral securing consumer loans to amounts equal to or less than the outstanding balances of the loans; and (iv) determinations by various regulatory agencies that Franklin must recognize additions to its provision for loan losses based on such regulators' judgment of information available to them at the time of their examinations.

Noninterest Income. Noninterest income was \$2.09 million for 2003, compared to \$2.06 million for 2002 and \$1.15 million for 2001. Current year income included profits of \$722,000 on the sale of mortgage and student loans, \$500,000 profit on the sale of investments, service fees of \$353,000 earned on checking and money market accounts, \$5,000 income from Madison and \$68,000 income from DirectTeller. Profits on the sale of loans and investments were \$978,000 in 2002 and \$365,000 in 2001. During 2002, the Company also realized a \$303,000 profit on the sale of a branch office building. Noninterest income during 2002 and 2001 included service fees on checking and money market accounts of \$340,000 and \$298,000, respectively. A rise in interest rates in the future could be anticipated to reduce the amount of fixed-rate loans originated therefore reducing the profits on the sale of fixed-rate loans.

Noninterest Expense. Noninterest expense was \$5.73 million, \$5.83 million and \$4.91 million for the years ended December 31, 2003, 2002 and 2001, respectively. As a percentage of average assets, total noninterest expenses were 2.06%, 2.09%, and 1.78% for the three years, respectively. Noninterest expense in 2002 included a \$540,000 loss on the sale of a WorldCom bond. Excluding the loss on the WorldCom bond, noninterest expense as a percent of average assets for 2002 was 1.89%. The following table shows the major noninterest expense items and their percent of change during 2003 and 2002.

	2003	Percent increase (decrease)	2002	Percent increase (decrease)	2001
	(Dollars in thousands)				
Compensation	\$ 2,175	14.0%	1,908	4.5%	1,825
Employee benefits	475	11.8	425	10.7	384
Office occupancy	808	11.8	723	12.3	644
FDIC insurance	67	(32.3)	99	6.5	93
Data processing	366	6.4	344	9.6	314
Marketing	286	3.6	276	(9.8)	306
Professional fees	139	(14.7)	163	25.4	130
Supervisory expense	132	(15.9)	157	13.8	138
Taxes, other than income	229	7.0	214	1.9	210
Loss on sale of investments	-	-	540	-	-
Other	1,052	7.3	980	13.3	865
Total	<u>\$ 5,729</u>	<u>(1.7)%</u>	<u>5,829</u>	<u>18.7%</u>	<u>4,909</u>

The increase in compensation and employee benefits reflects the increased cost of health insurance, an increase in the commissions paid to our loan originators and an increase in the number of loan processing personnel due to the substantial increase in loans originated. The increase in occupancy expense reflects the cost of the new Glenway office opened in March 2003. The increase in data processing expense reflects increased processing fees paid to our primary provider of data processing services. The decline in FDIC insurance, professional fees and supervisory expense in 2003 reflects the higher charges during 2002 due to the Interest Rate Risk Compliance Plan (see Note 10 of the Notes to Consolidated Financial Statements).

Provision for Federal Income Taxes. Provisions for federal income taxes were \$735,000, \$516,000, and \$534,000 in 2003, 2002 and 2001, respectively. The effective federal income tax rates for 2003, 2002, and 2001 were 33.8%, 32.6% and 31.8%, respectively. A reconciliation of statutory federal income tax rates to the effective federal income tax rates is shown in Note 12 of the Notes to Consolidated Financial Statements.

LIQUIDITY

Liquidity is the measure of the Company's ability to efficiently meet normal cash flow requirements of both borrowers and depositors. In the ordinary course of business, funds are generated from deposits and the maturity or repayment of earning assets, such as loans and investment securities. All financial institutions must manage their liquidity to meet anticipated funding needs at a reasonable cost and have contingency plans to meet unanticipated funding needs or the loss of a funding source.

The Company's liquid assets consist of cash, cash equivalents and investment securities available for sale. Liquid assets decreased \$15.41 million to \$45.76 million at December 31, 2003.

The changes in cash and cash equivalents may be caused by any one of three activities: operations, investing or financing. These activities are summarized below for the years ended December 31, 2003 and 2002.

	<u>Years ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
	(Dollars in thousands)	
Operating activities:		
Net income	\$ 1,440	1,066
Adjustments to reconcile net income to net cash provided by operating activities	2,568	(438)
Net cash provided by operating activities	4,008	628
Net cash used by investing activities	(7,185)	(7,138)
Net cash provided (used) by financing activities	(9,509)	705
Net decrease in cash and cash equivalents	(12,686)	(5,805)
Cash and cash equivalents at beginning of year	15,237	21,042
Cash and cash equivalents at end of year	\$ 2,551	15,237

Operating activities include the sale of fixed-rate single-family mortgage loans of \$49.73 million during 2003 and \$37.80 million during 2002. The sale of fixed-rate loans allows Franklin to attempt to maintain an appropriate level of interest rate sensitivity in its loan portfolio during times when market conditions are not favorable for originating adjustable-rate loans. During the first half of 2003, interest rates on fixed-rate loans were lower than rates experienced during the past few years, so consumer demand for fixed-rate loans was very strong and the demand for adjustable-rate loans weakened. Franklin has an agreement to sell all student loans originated to a third party. Sales of \$492,000 of student loans at a profit of \$6,100 occurred during 2003 compared to sales of \$1.17 million at a profit of \$14,700 during 2002.

Loan receipts and disbursements are a major component of the Company's investing activities. Repayments on loans and mortgage-backed securities during the year ended December 31, 2003 totaled \$78.59 million compared to \$89.16 million during 2002. Loan disbursements, including loans originated for sale, during 2003 were \$134.07 million compared to \$104.42 million during 2002.

The Company purchased \$1.00 million of mortgage-backed securities during 2003. Investment securities purchases during 2003 were \$48.80 million and maturities/calls were \$38.21 million. During 2002, investment securities purchases were \$43.91 million and maturities/calls were \$14.33 million. The increase in purchases during 2003 is the result of lower interest rates, which resulted in increased calls of investment securities and greater than anticipated proceeds from loan sales.

Also during 2003, the Company sold \$12.58 million of agency and corporate debt securities at a profit of \$441,000. The proceeds from the sales during 2003 were reinvested in available-for-sale agency securities and used to repay borrowings. During 2002, the Company sold \$3.43 million of fixed-rate mortgage-backed securities at a profit of \$86,000 and \$8.17 million of agency and corporate debt securities at a profit of \$251,000, excluding the loss on the WorldCom bond. In 2001, \$7.48 million of mortgage-backed securities were sold at a profit of \$34,000.

Financing activities include deposit account flows, the use of borrowed funds and the payment of dividends. Deposits increased \$2.58 million to \$221.67 million at December 31, 2003 from \$219.08 million at December 31, 2002. Net of interest credited, deposits decreased by \$3.47 million during 2003 as compared to a \$2.37 million increase during 2002. Due to the low rate environment during 2003, consumers moved funds from maturing certificates to core deposit accounts so they are poised to take advantage of future rate increases. As a result, core deposits increased \$4.81 million and certificates decreased \$2.23 million during 2003. The table below sets forth the deposit flows by type of account, including interest credited, during 2003 and 2002.

	Years ended December 31,	
	2003	2002
	(Dollars in thousands)	
Passbook deposits	\$ 478	7,209
NOW / Super NOW deposits	(1,490)	3,188
MMDA deposits	5,819	12,134
Total	4,807	22,531
Certificates of deposit:		
7-31 day	88	1
91 day	421	(131)
Six month	1,424	(4,146)
One year	(1,928)	(6,442)
Eighteen month	(2,387)	(3,861)
Two year	2,968	(2,136)
Three year	(7,311)	(5,208)
Thirty-nine month	(3,171)	2,924
Five year	8,331	6,487
Jumbo certificates	(660)	139
Other	-	(12)
Total	(2,225)	(12,385)
Total deposit increase	\$ 2,582	10,146

Borrowings decreased \$11.73 million to \$25.71 million at December 31, 2003. This decrease is primarily the result of the repayment of short-term borrowings. See Note 8 of the Notes to the Consolidated Financial Statements for additional information on the outstanding borrowings.

At December 31, 2003, Franklin had outstanding commitments to originate or purchase \$1.98 million of mortgage loans or mortgage-backed securities, as compared to \$3.77 million at December 31, 2002. Additionally, Franklin had undisbursed lines of credit on consumer and commercial loans of approximately \$16.60 million at December 31, 2003 compared to \$11.82 million at December 31, 2002. During the next twelve months, approximately \$54.25 million of certificates of deposit are scheduled to mature and \$3.58 million of borrowings mature or have required repayments. Based on past history, it is anticipated that the majority of the maturing certificates will either be renewed or transferred to other Franklin accounts. Management believes that the Company has sufficient cash flow and borrowing capacity to meet these commitments and maintain desired liquidity levels. Subject to certain limitations, based on its assets, Franklin is eligible to borrow an additional \$160.89 million from the Federal Home Loan Bank ("FHLB").

CAPITAL

The Company's capital supports business growth, provides protection to depositors, and represents the investment of stockholders on which management strives to achieve adequate returns. The capital adequacy objectives of the Company have been developed to meet these needs. These objectives are to maintain a capital base reasonably commensurate with the overall risk profile of the Company, to maintain strong capital ratios, and to meet all regulatory guidelines. Management believes that a strong capital base is instrumental in achieving enhanced stockholder returns over the long term.

The Company's stockholders' equity increased approximately \$386,000 during 2003 from \$23.43 million at December 31, 2002 to \$23.81 million at the end of 2003. Book value per share increased to \$14.50 at December 31, 2003 from \$14.33 at the end of 2002. The increase in stockholders' equity is primarily the result of net income for the year of \$1.44 million partially offset by a decline in unrealized gains on available-for-sale securities of \$616,000 and dividends declared of \$508,000. As a percentage of total assets, the Company's stockholders' equity was 8.71% and 8.30% at December 31, 2003 and 2002, respectively.

Dividends per share of \$0.31 were declared in 2003 and \$0.30 in 2002, resulting in payments of \$508,000 in 2003 and \$489,000 in 2002. See Note 9 of the Notes to Consolidated Financial Statements for information regarding regulatory restrictions on dividend payments from Franklin to the Company.

For regulatory purposes, Franklin is subject to a leverage ratio (core capital) and a risk-based capital requirement. The table below sets forth the capital levels required under OTS regulations and Franklin's actual capital levels at December 31, 2003.

Capital standard	December 31, 2003					
	Actual	Required	Excess	Actual	Required	Excess
	(Dollars In Thousands)					
Core	\$ 22,293	10,837	11,456	8.23%	4.00	4.23
Risk-based	\$ 23,209	13,942	9,267	13.32%	8.00	5.32

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2003, the FASB issued Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities that amends and clarifies financial accounting and reporting for derivative instruments and hedging activities. The statement classifies loan commitments that relate to the origination of mortgage loans that will be held for sale as derivative instruments by the issuer of the loan commitment. The statement is effective for contracts entered into or modified after June 30, 2003. Adoption of this Statement did not impact the Company's Financial Statements.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity that establishes standards for how an issuer classifies and measures financial instruments with characteristics of both liability and equity. It requires an issuer to classify a financial instrument within the scope of the pronouncement as a liability. Many of those instruments were previously classified as equity. The statement is effective for financial instruments entered into or modified after May 31, 2003. The Statement does not currently impact the Company because it does not issue these types of financial instruments.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. The issuance expands on existing accounting and disclosure requirements relating to the consolidation of variable interest entities (VIE). The issuance also provides the characteristics and definition of a VIE. The Interpretation is effective for all VIE's created after January 31, 2003, and for years beginning after December 15, 2003, for all VIE's created prior to February 1, 2003. The Company does not expect an impact from the adoption of the Interpretation.

CORPORATE INFORMATION

MARKET INFORMATION

The Company's common stock is traded in the over-the-counter market and is quoted on the Nasdaq National Market under the trading symbol "FFHS". As of December 31, 2003, there were 375 stockholders of record, not including those shares held in nominee or street name through various brokerage firms or banks. The following table sets forth the high and low closing sale prices of the Company's common stock as reported on the Nasdaq National Market during the quarters indicated. At February 27, 2004, First Franklin's closing sale price as reported on the Nasdaq National Market was \$20.10.

Stock prices for the quarter ended:

	<u>Low</u>	<u>High</u>
March 31, 2002	\$ 10.02	\$ 13.75
June 30, 2002	11.30	14.75
September 30, 2002	11.50	13.00
December 31, 2002	11.75	14.01
March 31, 2003	13.00	15.49
June 30, 2003	14.05	16.65
September 30, 2003	14.17	20.49
December 31, 2003	15.26	21.48

DIVIDENDS

Dividends are paid upon the determination of the Company's Board of Directors that such payment is consistent with the short-term and long-term interests of the Company. The factors affecting this determination include the Company's current and projected earnings, financial condition, regulatory restrictions, future growth plans and other relevant factors. The Company declared dividends of \$0.31 per share during 2003 and \$0.30 per share during 2002.

The principal source of earnings for the Company on an unconsolidated basis is dividends paid to the Company by Franklin. The OTS imposes various restrictions on the ability of savings institutions, such as Franklin, to make capital distributions. Capital distributions include, without limitation, payments of cash dividends, repurchases and certain other acquisitions by an institution of its shares and payments to stockholders of another institution in an acquisition of such other institution. An application must be submitted and approval obtained (i) if the proposed distribution would cause total distributions for the calendar year to exceed net income for that year to date plus the institution's retained net income for the preceding two years; (ii) if the institution will not be at least adequately capitalized following the capital distribution; or (iii) if the proposed distribution will violate a prohibition contained in any applicable statute, regulation or agreement between the institution and the OTS (or FDIC), or violate a condition imposed in an OTS approved application or notice. If the subsidiary of a holding company is not required to file an application, it must file a notice of the distribution with the OTS. Franklin paid dividends to the Company of \$750,000 during 2003.

There is no federal regulatory restriction on the payment of dividends by the Company. However, the Company is subject to the requirements of Delaware law which generally limit dividends to an amount equal to the excess of a corporation's net assets over paid in capital or, if there is no such excess, to its net profits for the current and immediately preceding fiscal year.

TRANSFER AGENT:

Provident Bank, Cincinnati, Ohio

SPECIAL COUNSEL:

Vorys, Sater, Seymour and Pease LLP, Cincinnati, Ohio

ANNUAL MEETING:

The Annual Meeting of Stockholders will be held at the corporate office of the Company located at 4750 Ashwood Drive, Cincinnati, Ohio, on April 26, 2004 at 3:00 p.m.

FORM 10-KSB:

The Company's 2003 Annual Report on Form 10-KSB as filed with the Securities and Exchange Commission will be furnished without charge to any shareholder who contacts:

Investor Relations Department
First Franklin Corporation
4750 Ashwood Drive
P.O. Box 415739
Cincinnati, Ohio 45241
Or E-mail: dvoelpel@franklinsavings.com

Visit our Website:

www.franklinsavings.com

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors
of First Franklin Corporation and Subsidiary:

We have audited the consolidated balance sheets of First Franklin Corporation and Subsidiary as of December 31, 2003 and 2002 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Franklin Corporation and Subsidiary as of December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
January 23, 2004

**FIRST FRANKLIN CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

ASSETS

	December 31,	
	2003	2002
Cash, including certificates of deposit and other interest-earning deposits of \$100,000 and \$9,130,000 at December 31, 2003 and 2002, respectively	\$ 2,550,518	15,236,876
Investment securities:		
Securities available-for-sale, at market value (amortized cost of \$43,364,590 and \$45,291,855 at December 31, 2003 and 2002, respectively)	43,210,566	45,935,031
Mortgage-backed securities:		
Securities available-for-sale, at market value (amortized cost of \$12,949,594 and \$17,716,025 at December 31, 2003 and 2002, respectively)	13,036,113	17,938,877
Securities held-to-maturity, at amortized cost (market value of \$2,084,611 and \$4,615,060 at December 31, 2003 and 2002, respectively)	1,957,134	4,351,389
Loans receivable, net	199,936,694	187,754,411
Real estate owned, net	210,133	159,655
Investment in Federal Home Loan Bank of Cincinnati stock, at cost	4,135,200	3,974,100
Accrued interest receivable:		
Investment securities	305,323	457,463
Mortgage-backed securities	47,500	89,500
Loans receivable	693,851	767,029
Property and equipment, net	3,956,441	3,287,025
Other assets	3,362,397	2,232,604
	\$ 273,401,870	282,183,960

LIABILITIES

Deposits	\$ 221,665,737	219,084,042
Borrowed money	25,709,376	37,436,041
Advances by borrowers for taxes and insurance	1,347,439	1,274,374
Other liabilities	518,891	681,095
Total liabilities	249,241,443	258,475,552
Minority interest in consolidated subsidiary	346,916	281,175

Commitments (Notes 14 and 16)

STOCKHOLDERS' EQUITY

Preferred stock - \$.01 par value, 500,000 shares authorized, none issued and outstanding		
Common stock - \$.01 par value, 2,500,000 shares authorized, 2,010,867 shares issued in 2003 and 2002.	13,406	13,406
Additional paid-in capital	6,189,237	6,189,237
Treasury stock, at cost - 368,309 shares in 2003 and 375,696 shares in 2002.	(3,682,217)	(3,753,053)
Retained earnings, substantially restricted	21,337,640	20,406,116
Accumulated other comprehensive income:		
Unrealized gain (loss) on available-for-sale securities, net of taxes of \$(23,000) and \$294,500 at December 31, 2003 and 2002, respectively	(44,555)	571,527
Total stockholders' equity	23,813,511	23,427,233
	\$ 273,401,870	282,183,960

See accompanying notes to financial statements.

**FIRST FRANKLIN CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME**

Years ended December 31,

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Interest income:			
Loans receivable	\$ 11,833,792	13,716,160	15,287,278
Investment securities	2,177,347	2,001,226	1,386,356
Mortgage-backed securities	774,626	1,127,205	1,962,576
Other interest income	48,803	209,556	301,856
	<u>14,834,568</u>	<u>17,054,147</u>	<u>18,938,066</u>
Interest expense:			
Deposits	6,918,035	8,970,225	9,896,205
Borrowed funds	1,868,562	2,627,302	3,533,462
	<u>8,786,597</u>	<u>11,597,527</u>	<u>13,429,667</u>
Net interest income	6,047,971	5,456,620	5,508,399
Provision for loan losses	236,000	104,500	65,175
Net interest income after provision for loan losses	5,811,971	5,352,120	5,443,224
Noninterest income:			
Service fees on NOW accounts	352,862	339,871	298,104
Gain on loans sold	722,428	641,244	316,808
Gain on sale of investments	499,656	336,502	48,296
Gain on sale of property	-	303,117	-
Other income	516,553	437,983	483,784
	<u>2,091,499</u>	<u>2,058,717</u>	<u>1,146,992</u>
Noninterest expense:			
Salaries and employee benefits	2,650,369	2,332,601	2,208,630
Occupancy	808,021	722,715	644,486
Federal deposit insurance premiums	67,420	98,767	92,919
Service bureau	365,940	343,921	313,718
Advertising	285,549	275,555	265,486
Taxes, other than income taxes	228,956	213,965	205,432
Loss on sale of investments	-	540,126	-
Other	1,322,345	1,301,367	1,178,939
	<u>5,728,600</u>	<u>5,829,017</u>	<u>4,909,610</u>
Income before federal income taxes	2,174,870	1,581,820	1,680,606
Provision for federal income taxes	735,037	515,676	533,792
Net income	\$ 1,439,833	1,066,144	1,146,814
Net income per common share:			
Basic	<u>\$ 0.88</u>	<u>0.65</u>	<u>0.71</u>
Diluted	<u>\$ 0.85</u>	<u>0.65</u>	<u>0.71</u>

See accompanying notes to financial statements.

**FIRST FRANKLIN CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net Income	\$ 1,439,833	1,066,144	1,146,814
Other comprehensive income, net of tax			
Unrealized gain (loss) on available-for-sale securities:			
Unrealized holding gains (losses) during the year	(286,309)	376,260	261,170
Less: Reclassification adjustment for losses (gains) on investments securities included in net income	(329,773)	134,392	(31,875)
Comprehensive income	\$ 823,751	1,576,796	1,376,109

See accompanying notes to financial statements.

FIRST FRANKLIN CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common stock	Additional paid-in capital	Treasury stock	Net unrealized gain (loss) on available-for- sale securities	Retained earnings
Balance, December 31, 2000	\$ 13,406	6,189,237	(3,888,112)	(168,420)	19,166,329
Dividends declared (\$.30 per common share)					(484,164)
Change in net unrealized gains on securities available-for-sale, net of deferred tax of \$118,100				229,295	
Net income for the year ended December 31, 2001					1,146,814
Balance, December 31, 2001	\$ 13,406	6,189,237	(3,888,112)	60,875	19,828,979
Dividends declared (\$.30 per common share)					(489,007)
Change in net unrealized gains on securities available-for-sale, net of deferred tax of \$263,200				510,652	
Issuance of treasury stock			135,059		
Net income for the year ended December 31, 2002					1,066,144
Balance December 31, 2002	\$ 13,406	6,189,237	(3,753,053)	571,527	20,406,116
Dividends declared (\$.31 per common share)					(508,309)
Change in net unrealized losses on securities available-for-sale, net of deferred tax of \$(317,450)				(616,082)	
Issuance of treasury stock			70,836		
Net income for the year ended December 31, 2003					1,439,833
Balance December 31, 2003	\$ 13,406	6,189,237	(3,682,217)	(44,555)	21,337,640

See accompanying notes to financial statements.

**FIRST FRANKLIN CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:			
Net income	\$ 1,439,833	1,066,144	1,146,814
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	236,000	104,500	65,175
Depreciation	240,525	203,664	179,171
Amortization	216,939	306,448	219,373
Deferred income taxes	(13,099)	60,690	38,413
Loss (gain) on sale of investments	(499,656)	203,624	(48,296)
Gain on sale of loans	(434,733)	(410,776)	(123,183)
Gain on sale of property and equipment	(1,018)	(303,117)	-
FHLB stock dividends	(161,100)	(178,400)	(244,800)
(Increase) decrease in accrued interest receivable	267,318	135,697	(5,501)
Increase in other assets	(205,558)	(10,014)	(66,616)
Increase (decrease) in other liabilities	(162,204)	(75,213)	213,824
Other, net	49,948	35,475	94,116
Proceeds from sale of loans originated for sale	49,730,318	37,802,329	22,170,193
Disbursements on loans originated for sale	(46,695,880)	(38,313,075)	(14,858,574)
Net cash provided by operating activities	<u>4,007,633</u>	<u>627,976</u>	<u>8,780,109</u>
Cash flows from investing activities:			
Principal reductions on loans and mortgage-backed securities	78,588,737	89,156,435	67,147,307
Disbursements on mortgage and other loans originated for investment	(87,375,502)	(66,105,161)	(58,275,882)
Proceeds from sale of student loans	497,713	1,182,752	379,072
Proceeds from sale of SBA loans	720,563	-	-
Purchase of investment securities:			
Available-for-sale	(48,804,875)	(43,907,578)	(22,916,358)
Proceeds from maturities/calls of investment securities:			
Available-for-sale	38,213,642	14,330,000	18,525,000
Proceeds from the sale of investment securities:			
Available-for-sale	13,020,863	8,427,258	-
Purchase of mortgage-backed securities:			
Available-for-sale	(1,003,906)	(13,042,715)	-
Proceeds from sale of mortgage-backed securities:			
Available-for-sale	-	3,512,929	7,528,306
Purchase of other investments	(500,000)	-	(1,000,000)
Purchase of FHLB stock	-	-	(200,000)
Capital expenditures	(921,544)	(1,226,344)	(688,177)
Proceeds from sale of real estate owned	367,696	88,947	-
Proceeds from sale of property and equipment	12,000	444,892	-
Net cash provided (used) by investing activities	<u>\$ (7,184,613)</u>	<u>(7,138,585)</u>	<u>10,499,268</u>

Continued

See accompanying notes to financial statements.

**FIRST FRANKLIN CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued**

	Years ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cash flows from financing activities:			
Net increase in deposits	\$ 2,581,695	10,146,259	23,407,302
Issuance of treasury stock	70,836	135,059	-
Payment of dividends	(508,309)	(489,007)	(484,164)
Repayment of borrowings, net	(11,726,665)	(9,052,388)	(22,489,394)
Increase (decrease) in advances by borrowers for taxes and insurance	73,065	(34,717)	(21,353)
Net cash provided (used) by financing activities	(9,509,378)	705,206	412,391
Net increase (decrease) in cash	(12,686,358)	(5,805,403)	19,691,768
Cash at beginning of year	15,236,876	21,042,279	1,350,511
Cash at end of year	\$ 2,550,518	15,236,876	21,042,279
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, including interest credited to deposit accounts	\$ 8,777,099	11,586,610	13,422,109
Income taxes	\$ 615,000	595,000	550,000
Supplemental disclosure of noncash activities:			
Real estate acquired in settlement of loans	\$ 424,382	179,655	96,451
Change in unrealized gain (loss) on available-for-sale securities	\$ (933,533)	773,854	347,394

See accompanying notes to financial statements.

FIRST FRANKLIN CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Accounting Policies:

The following describes the organization and the significant accounting policies followed in the preparation of these financial statements.

Organization

First Franklin Corporation (the Company) is a holding company formed in 1987 in conjunction with the conversion of Franklin Savings and Loan Company (Franklin Savings) from a mutual to a stock savings and loan association. The Company's financial statements include the accounts of its wholly-owned subsidiary, Franklin Savings, and Franklin Savings' wholly-owned subsidiary, Madison Service Corporation and DirectTeller Systems Inc. which is 51% owned by the Company. Minority interest relating to the portion of DirectTeller Systems Inc. has been separately reported in the financial statements. All significant intercompany transactions have been eliminated in consolidation.

Franklin Savings is an Ohio chartered savings and loan association, operating seven banking offices in Hamilton County, Ohio through which it offers a full range of consumer banking services. Franklin Savings is a member of the Federal Home Loan Bank (FHLB) System, and is subject to regulation by the Office of Thrift Supervision (OTS), a division of the U.S. Government Department of the Treasury. As a member of the FHLB, Franklin Savings maintains a required investment in capital stock of the FHLB of Cincinnati.

Deposit accounts are insured within certain limitations by the Savings Association Insurance Fund (SAIF), which is administered by the Federal Deposit Insurance Corporation (FDIC). An annual premium is required by the SAIF for the insurance of such deposit accounts.

Franklin Savings conducts a general banking business in southwestern Ohio which consists of attracting deposits from the general public and applying those funds to the origination of loans for residential, consumer and nonresidential purposes. The Company's profitability is significantly dependent on its net interest income, which is the difference between interest income generated from interest-earning assets (i.e. loans and investments) and the interest expense paid on interest-bearing liabilities (i.e. customer deposits and borrowed funds). Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities and the interest received or paid on these amounts. The level of interest rates paid or received by Franklin Savings can be significantly influenced by a number of environmental factors, such as governmental monetary policy, that are outside of management's control.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes certificates of deposit and other interest-earning deposits with original maturities of less than ninety days.

Investment and Mortgage-Backed Securities

Investment and mortgage-backed securities are classified upon acquisition into one of three categories: held-to-maturity, available-for-sale, or trading (see Note 2).

Held-to-maturity securities are those debt securities that the Company has the positive intent and ability to hold to maturity and are recorded at amortized cost. Available-for-sale securities are those debt and equity securities that are available to be sold in the future in response to the Company's liquidity needs, changes in market interest rates, asset-liability management strategies, and other reasons. Available-for-sale securities are reported at fair value, with unrealized holding gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of applicable taxes. At December 31, 2003 and 2002 the Company did not hold any trading securities.

Gains and losses realized on the sale of investment securities are accounted for on the trade date using the specific identification method.

Loans Receivable

Loans receivable are stated at unpaid principal balance, less the allowance for loan losses and net of deferred loan origination fees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

1. Organization and Accounting Policies, Continued:

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. Changes in the overall local economy in which the Company operates may impact the allowance for loan losses.

Loans, including impaired loans, are generally classified as non-accrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well-secured and in the process of collection. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms of interest and principal. While a loan is classified as non-accrual, interest income is generally recognized on a cash basis.

A loan is defined as impaired when based on current information and events; it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company considers its investment in one to-four family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification of impairment. With respect to the Company's investment in non-residential and multi-family residential real estate loans the evaluation of impairment on such loans is based on the lower of cost or fair value of the underlying collateral.

The Company sells loans in the secondary market. Mortgage loan sales totaled \$49,730,300 and \$37,802,300 during 2003 and 2002, respectively. The amount of loans held for sale at December 31, 2003 and 2002 is not material to the loan portfolio and thus is not reported separately in the Company's balance sheet. It is generally management's intention to hold all other loans originated to maturity or earlier repayment.

The Company defers all loan origination fees, net of certain direct loan origination costs, and amortizes them over the life of the loan as an adjustment of yield.

Real Estate Owned

Real estate owned is initially carried at fair value less cost to sell at the date acquired in settlement of loans (the date the Company takes title to the property). Valuations are periodically performed by management, and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its estimated fair value at the acquisition date. Costs relating to the holding of such properties are expensed as incurred.

Property and Equipment

Land is carried at cost. Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

Income Taxes

Deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings Per Common Share

Earnings per common share have been computed on the basis of the weighted average number of common shares outstanding, and, when applicable, those stock options that are dilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates used in the preparation of the financial statements are based on various factors including the current interest rate environment and the general strength of the local economy. Changes in the overall interest rate environment can significantly affect the Company's net interest income and the value of its recorded assets and liabilities. Actual results could differ from those estimates used in the preparation of the financial statements.

2. Investment and Mortgage-Backed Securities:

The amortized cost and estimated market values of investment securities are as follows:

December 31, 2003				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 39,609,472	175,337	468,840	39,315,969
Corporate debt securities	2,554,705	73,360	-	2,628,065
Obligations of states and municipalities	1,200,413	66,119	-	1,266,532
	\$ 43,364,590	314,816	468,840	43,210,566
December 31, 2002				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 35,395,653	549,469	1,888	35,943,234
Corporate debt securities	8,759,139	133,857	98,763	8,794,233
Obligations of states and municipalities	1,137,063	60,501	-	1,197,564
	\$ 45,291,855	743,827	100,651	45,935,031

The amortized cost and estimated market value of investment securities at December 31, 2003, by contractual maturity, are shown below. Expected maturities may differ from contractual maturity because issuers may have the right to call obligations at par.

	Amortized cost	Estimated market value
Available-for-sale:		
Due in one year or less	\$ 1,045,676	1,061,278
Due after one year through five years	2,469,443	2,576,923
Due after five years through ten years	15,210,439	15,009,046
Due after ten years	24,639,032	24,563,319
	\$ 43,364,590	43,210,566

The Company recorded a loss on a bond during the year ended December 31, 2002 totaling \$540,126. The loss was recorded through a permanent impairment and subsequent sale of the bond.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

2. Investment and Mortgage-Backed Securities, Continued:

The detail of interest and dividends on investment securities (including dividends on FHLB stock) is as follows:

	Years ended December 31,		
	2003	2002	2001
Taxable interest income	\$ 1,959,886	1,754,023	1,075,761
Nontaxable interest income	56,101	68,574	65,699
Dividends	161,360	178,629	244,896
	\$ 2,177,347	2,001,226	1,386,356

The amortized cost and estimated market values of mortgage-backed securities are as follows:

	December 31, 2003			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Available-for-sale:				
FHLMC certificates	\$ 214,351	4,742	-	219,093
FNMA certificates	1,245,301	33,645	-	1,278,946
GNMA certificates	9,490,680	34,331	13,707	9,511,304
Collateralized mortgage obligations	1,999,262	27,508	-	2,026,770
	\$ 12,949,594	100,226	13,707	13,036,113
Held-to-maturity:				
FHLMC certificates	\$ 617,127	43,820	-	660,947
FNMA certificates	835,358	44,763	-	880,121
GNMA certificates	504,649	38,894	-	543,543
	\$ 1,957,134	127,477	-	2,084,611
	December 31, 2002			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Available-for-sale:				
FHLMC certificates	\$ 403,505	8,404	-	411,909
FNMA certificates	1,626,714	33,251	203	1,659,762
GNMA certificates	13,685,044	188,175	-	13,873,219
Collateralized mortgage obligations	2,000,762	-	6,775	1,993,987
	\$ 17,716,025	229,830	6,978	17,938,877
Held-to-maturity:				
FHLMC certificates	\$ 1,365,298	86,349	-	1,451,647
FNMA certificates	1,758,702	87,809	-	1,846,511
GNMA certificates	1,227,389	89,513	-	1,316,902
	\$ 4,351,389	263,671	-	4,615,060

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

3. Loans Receivable:

The Company primarily originates single family real estate loans in southwestern Ohio. Loans are originated on the basis of credit policies established by the Company's management and board of directors and are generally collateralized by first mortgages on the properties. Management believes that the Company has a diversified loan portfolio and there are no credit concentrations other than in residential real estate.

Loans receivable, net, consists of the following:

	December 31,	
	2003	2002
First mortgage loans:		
Principal balances:		
Collateralized by one- to four-family residences	\$ 113,479,631	112,895,671
Collateralized by multi-family properties	13,179,434	13,909,357
Collateralized by other properties	33,353,700	30,183,524
Construction loans	8,840,814	10,677,067
	168,853,579	167,665,619
Less:		
Undisbursed portion of construction loans	(2,286,143)	(2,390,318)
Net deferred loan origination fees	(140,478)	(111,549)
	166,426,958	165,163,752
Consumer and other loans:		
Principal balances:		
Consumer loans	1,839,078	1,850,715
Lines of credit	32,026,019	20,965,201
Loans on savings accounts	459,565	450,803
Student loans	553,717	507,101
	34,878,379	23,773,820
Less allowance for loan losses	(1,368,643)	(1,183,161)
	\$ 199,936,694	187,754,411

Activity in the allowance for loan losses is summarized as follows:

	Years ended December 31,		
	2003	2002	2001
Balance, beginning of year	\$ 1,183,161	1,099,731	1,060,048
Provision for loan losses	236,000	104,500	65,175
Charge-offs and recoveries, net	(20,518)	(1,070)	(25,492)
Transfers to allowance for losses on real estate owned	(30,000)	(20,000)	-
Balance, end of year	\$ 1,368,643	1,183,161	1,099,731

It is the opinion of management that adequate provisions have been made for anticipated losses in the loan portfolio. At December 31, 2003 and 2002 the recorded investment in loans for which impairment has been recognized was immaterial to the Company's financial statements. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. Loans on nonaccrual status as of December 31, 2003 and 2002 were approximately \$2,616,000 and \$1,745,000, respectively. Accruing loans over 90 days delinquent were \$734,000 and \$524,000 as of December 31, 2003 and 2002, respectively. Income recognized on a cash basis on nonaccrual loans for the year 2003 was \$48,000. Additional interest income of \$70,000 would have been recognized if the nonaccrual loans had been in accordance with their original terms.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were approximately \$76,568,000, \$69,743,000 and \$56,654,000 at December 31, 2003, 2002 and 2001, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

3. Loans Receivable, Continued:

Mortgage servicing rights of \$303,319, \$245,198 and \$199,297 were capitalized in 2003, 2002 and 2001, respectively. The fair value of mortgage servicing rights approximates the current book value as of December 31, 2003 and 2002. The carrying value of the Company's servicing rights totaled approximately \$442,000 and \$349,000 at December 31, 2003 and 2002. Amortization of mortgage-servicing rights was \$209,574, \$205,125 and \$119,169 for 2003, 2002 and 2001, respectively.

4. Real Estate Owned:

Real estate owned consists of the following:

	December 31,	
	<u>2003</u>	<u>2002</u>
Real estate owned	\$ 240,133	179,655
Less: allowance for losses	(30,000)	(20,000)
	\$ 210,133	159,655

Activity in the allowance for losses on real estate owned is summarized as follows:

	Years ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Balance, beginning of year	20,000	7,000	-
Write-down of property	7,000	(7,000)	7,000
Transfers from allowance for loan losses	30,000	20,000	
Balance, end of year	\$ 30,000	20,000	7,000

5. Property and Equipment:

Property and equipment, net, consists of the following:

	December 31,	
	<u>2003</u>	<u>2002</u>
Buildings and improvements	\$ 1,809,079	1,781,291
Leasehold improvements	1,991,676	1,049,950
Furniture, fixtures and equipment	2,503,227	2,066,241
	6,303,982	4,897,482
Accumulated depreciation and amortization	(3,534,076)	(3,334,346)
	2,769,906	1,563,136
Construction in progress	-	537,354
Land	1,186,535	1,186,535
	\$ 3,956,441	3,287,025

The Company constructed a new branch location that opened in the first quarter of 2003. The total cost of the building and equipment was approximately \$850,000. The former branch location was sold for approximately \$444,000 in 2002 generating a gain of approximately \$303,000. The gain on the sale has been deferred for income tax purposes via a property exchange agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

6. Other Assets:

Included in other assets as of December 31, 2003 and 2002 is a \$1,500,000 investment in Financial Institutions Partners III, L.P. recorded under the cost method. The net asset value of the Company's pro-rata interest in the partnership as estimated by Hovde Financial Inc., the general partner, was approximately \$2,121,000 and \$2,106,000 at December 31, 2003 and 2002, respectively. There is not a readily determinable market for ownership interests in this investment. The partnership invests primarily in equity securities of publicly-traded financial institutions. Also included in other assets as of December 31, 2003 is a \$500,000 investment in a CRA investment fund. The market value of the fund approximates the cost.

7. Deposits:

Deposits consist of the following:

	December 31, 2003			December 31, 2002		
	Weighted average rate	Amount	Percent of deposits	Weighted average rate	Amount	Percent of deposits
Passbooks NOW accounts and variable rate money market savings and checking accounts	0.74%	\$ 30,250,034	13.6%	1.26%	\$ 29,772,804	13.6%
	0.99	54,349,421	24.5	1.25	50,020,013	22.8
		84,599,455	38.1		79,792,817	36.4
Certificates:						
1-6 month	1.30	11,180,016	5.0	1.97	9,246,161	4.2
1 year	1.61	15,429,334	7.0	2.52	17,356,134	7.9
18 month	2.21	9,007,954	4.1	3.15	11,395,512	5.2
18 month - 5 years	3.56	40,292,357	18.2	5.46	47,807,882	21.9
5-8 years	5.51	58,553,301	26.4	6.10	50,222,813	22.9
Jumbos	1.00	2,603,320	1.2	1.75	3,262,723	1.5
		137,066,282	61.9		139,291,225	63.6
Total deposits		\$ 221,665,737	100.0%		\$ 219,084,042	100.0%

At December 31, 2003, scheduled maturities of certificates of deposit are as follows:

2004	\$ 54,246,841
2005	42,352,258
2006	16,173,444
2007	8,555,004
2008	11,431,109
Thereafter	4,307,626
	\$ 137,066,282

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

7. Deposits, Continued:

Interest and dividends paid and accrued on deposits, net of penalties assessed depositors exercising early certificate withdrawal privileges, are as follows:

	Years ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Passbooks	\$ 271,974	568,031	598,593
NOW and money market accounts	574,973	725,925	544,723
Certificates	6,071,088	7,676,269	8,752,889
	\$ 6,918,035	8,970,225	9,896,205

Certificates of deposit with balances of \$100,000 or more totaled approximately \$30,646,000 and \$29,836,000 at December 31, 2003 and 2002, respectively.

8. Borrowed Money:

Borrowed money at December 31, 2003 consists of the following:

<u>Maturing during</u>	<u>Average interest rate</u>	<u>Outstanding balance</u>
2004	1.46%	\$ 2,135,077
2005	5.30	2,150,000
2006	8.15	52,598
2008	4.97	5,000,000
2009-2013	6.33	15,098,225
Thereafter	1.48	1,273,476
	5.34%	\$ 25,709,376

At December 31, 2003 the Company's borrowings consisted of \$24,559,376 of fixed-rate loans and \$1,150,000 of variable-rate loans.

The borrowings require principal payments as follows:

2004	\$ 3,577,615
2005	3,361,094
2006	1,001,649
2007	831,227
2008	5,695,647
Thereafter	11,242,144
	\$ 25,709,376

As collateral for the borrowings from the FHLB, the Company has pledged mortgage loans equal to or greater than 135% of the outstanding balance. Included in the Company's borrowed money are borrowings with a balance of \$1,150,000 under a credit line totaling \$1.5 million. At December 31, 2003 the Company was in compliance with the bank loan covenants relating to adequate capital ratios.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

9. Stockholders' Equity:

Retained earnings are restricted by regulatory requirements and federal income tax requirements.

In connection with the insurance of savings deposits by SAIF, Franklin Savings is required to maintain specified capital levels based on OTS regulations (see Note 10). At December 31, 2003, the most restrictive required level of capital to satisfy regulatory requirements was approximately \$13,942,000.

Prior to 1996 Franklin Savings was allowed a special bad debt deduction, generally limited to 8% of otherwise taxable income, and subject to certain limitations based on aggregate loans and deposit account balances at the end of the year. If the amounts that qualified as deductions for federal income taxes are later used for purposes other than bad debt losses, including distributions in liquidation, such distributions will be subject to federal income taxes at the then current corporate income tax rate. Retained earnings at December 31, 2003, include approximately \$3,167,000 for which federal income taxes have not been provided. The approximate amount of unrecognized deferred tax liability relating to the cumulative bad debt deduction was approximately \$1,050,000 at December 31, 2003.

A bill repealing the thrift bad debt reserve was signed into law and was effective for taxable years beginning after December 31, 1995. All savings banks and thrifts are required to account for tax reserves for bad debts in the same manner as banks. Such entities with assets less than \$500 million are required to maintain a moving average experience based reserve and no longer will be able to calculate a reserve based on a percentage of taxable income.

Tax reserves accumulated after 1987 were automatically subject to recapture. The recapture will occur in equal amounts over six years beginning in 1997 and can be deferred up to two years, depending on the level of loans originated. The tax law change has no effect as the Company has had no increase in tax reserves accumulated after 1987. Pre-1988 tax reserves will not have to be recaptured unless the thrift or successor institution liquidates, redeems shares or pays a dividend in excess of earnings and profits.

Payment of dividends on the common stock of the Company could be subject to the availability of funds from dividend distributions of Franklin Savings, which are subject to various restrictions. The OTS imposes various restrictions on the ability of savings institutions, such as Franklin Savings, to make capital distributions. Capital distributions include, without limitation, payments of cash dividends, repurchases and certain other acquisitions by an institution of its shares and payments to stockholders of another institution in an acquisition of such other institution. An application must be submitted and approval obtained (i) if the proposed distribution would cause total distributions for the calendar year to exceed net income for that year to date plus the institution's retained net income for that year to date, plus the retained net income for the preceding two years; (ii) if the institution will not be at least adequately capitalized following the capital distribution; or (iii) if the proposed distribution will violate a prohibition contained in any applicable statute, regulation or agreement between the institution and the OTS (or FDIC), or violate a condition imposed in an OTS approved application or notice. If the subsidiary of a holding company is not required to file an application, it must file a notice with the OTS. The amount of any dividends cannot reduce the Company's capital below the liquidation account discussed below.

In accordance with regulatory requirements, Franklin Savings established a special "Liquidation Account" for the benefit of certain deposit account holders in an amount equal to the regulatory capital of Franklin Savings as of September 30, 1987 of \$8.1 million. In the event of a complete liquidation of Franklin Savings, each eligible account holder would be entitled to his interest in the Liquidation Account prior to any payment to holders of common stock, but after payments of any amounts due to the creditors of Franklin Savings (including those persons having deposit accounts with Franklin Savings). The amount of the Liquidation Account is subject to reduction as a result of deposit account withdrawals by eligible account holders after the conversion. Any assets remaining after the payments of creditors and the above liquidation rights of eligible account holders would be distributed to the holders of common stock in proportion to their stock holdings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

9. Stockholders' Equity, Continued:

The Company has a stock option plan (the 1997 Stock Option and Incentive Plan) for officers, key employees and directors, under which options to purchase the Company's common shares are granted at a price no less than the fair market value of the shares at the date of the grant. Options could be exercised during a term to be determined by a committee appointed by the Board of Directors, but in no event more than ten years from the date they are granted. The Company has authorized the issuance of 175,984 common shares under the plan. Transactions involving the Plan are summarized as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Options outstanding at beginning of year	170,892	175,984	165,610
Granted	-	-	45,012
Canceled/Forfeited	(901)	(3,794)	(34,638)
Exercised	(7,347)	(1,298)	-
Options outstanding at end of year	162,644	170,892	175,984

All options have an exercise price between \$7.75 and \$19.80. The options granted vest over a three year period from the date of grant and the Company has implemented certain performance goals for the grants to be exercisable. The Company did not meet the performance goals for 2001 thereby reducing the 2000 options by 50%.

The Company has another stock option plan (the 2002 Stock Option and Incentive Plan) for officers, key employees and directors, under which options to purchase the Company's common shares are granted at a price no less than the fair market value of the shares at the date of the grant. Options could be exercised during a term to be determined by a committee appointed by the Board of Directors, but in no event more than ten years from the date they are granted. The Company has authorized the issuance of up to approximately 161,000 common shares under the plan. Transactions involving the Plan are summarized as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Options outstanding at beginning of year	85,006	20,538	-
Granted	71,550	65,175	20,538
Canceled/Forfeited	(1,125)	(707)	-
Exercised	(40)	-	-
Options outstanding at end of year	155,391	85,006	20,538

All options granted under the 2002 plan have an exercise price between \$10.14 and \$19.44. The options granted vest over a three year period from date of grant and the Company has implemented certain performance goals for the grants to be exercisable.

The Company applies Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees, and related Interpretations in accounting for its option plan. Accordingly, no compensation cost has been recognized. Had compensation cost for the Company's stock-based compensation plan been determined based on the fair value at the grant dates for the awards under those plans consistent with the method of SFAS Statement 123, Accounting for Stock-Based Compensation, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net income:			
As reported	\$ 1,439,833	1,066,144	1,146,814
Additional compensation cost	236,392	60,150	104,025
Pro forma net income	1,203,441	1,005,994	1,042,789
Basic earnings per share			
As reported	\$ 0.88	0.65	0.71
Pro forma earnings per share	0.85	0.65	0.71

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

9. Stockholders' Equity, Continued:

The fair value and pro forma income information calculated for options granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for 2003, 2002, and 2001 respectively: expected volatility of .40 percent, .34 percent, and .11 percent; risk free interest rates of 3.7 percent, 3.9 percent, and 5.3 percent; dividend yields of .31 percent, .30 percent, and .30 percent, and for all years, expected lives of ten years.

10. Regulatory Matters:

The OTS has promulgated regulations implementing uniform minimum capital requirements and capital adequacy standards for federally insured savings associations. At December 31, 2003, the capital standards include a 4.0% tier 1 capital requirement and a risk-based capital requirement (computed on a risk-adjusted asset base) of 8.0%. At December 31, 2003, Franklin Savings meets each of the capital requirements as follows:

	Computed regulatory requirements	Franklin's computed capital	Franklin's computed capital as a percent of total assets or risk-adjusted assets
Tier 1 capital	\$10,837,000	22,293,000	8.23%
Risk-based capital	13,942,000	23,209,000	13.32%

In May 2000, Franklin Savings submitted an Interest Rate Risk Compliance Plan (Plan) to the OTS containing various provisions to reduce its interest rate risk. Franklin Savings met the goal of the Plan during the first quarter of 2001 and the OTS released Franklin Savings from the Plan on September 9, 2002.

11. Fair Values of Financial Instruments:

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments", requires that the Company disclose estimated fair values for its financial instruments. The following methods and assumptions were used to estimate the fair value of the Company's financial instruments.

Cash and Cash Equivalents and Investment in FHLB Stock

The carrying value of cash and cash equivalents and the investment in FHLB stock approximates those assets' fair value.

Investment and Mortgage-Backed Securities

For investment securities (debt instruments) and mortgage-backed securities, fair values are based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices of comparable instruments.

Loans Receivable

The fair value of the loan portfolio is estimated by evaluating homogeneous categories of loans with similar financial characteristics. Loans are segregated by types, such as residential mortgage, commercial real estate, and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms, and by performing and nonperforming categories.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

11. Fair Values of Financial Instruments, Continued:

The fair value of performing loans, except residential mortgage loans, is calculated by discounting contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources. The fair value for significant nonperforming loans is based on recent internal or external appraisals. Assumptions regarding credit risk, cash flow, and discount rates are judgmentally determined by using available market information.

Deposits

The fair values of passbook accounts, NOW accounts, and the money market savings and demand deposits equal their carrying values. The fair value of fixed-maturity certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently offered for deposits of similar remaining maturities.

Borrowed Money

Rates currently available to the Company for borrowings with similar terms and remaining maturities are used to estimate the fair value of existing borrowings.

Commitments to Extend Credit

The fair value of commitments to extend credit approximates the contractual amount due to the comparability of current levels of interest rates and the committed rates.

The estimated fair values of the Company's financial instruments at December 31, 2003 and 2002 are as follows:

	December 31, 2003		December 31, 2002	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$ 2,550,518	2,550,518	15,236,876	15,236,876
Investment securities	43,210,566	43,210,566	45,935,031	45,935,031
Mortgage-backed securities	14,993,247	15,121,000	22,290,266	22,554,000
Loans receivable	199,936,694	200,682,000	187,754,411	189,455,000
Financial liabilities:				
Deposits	221,665,737	226,086,000	219,084,042	224,661,000
Borrowed money	25,709,376	25,824,000	37,436,041	36,761,000

	December 31, 2003		December 31, 2002	
	Contractual amount	Fair value	Contractual amount	Fair value
Unrecognized financial instruments:				
Commitments to extend credit	\$ 1,978,000	1,978,000	3,769,000	3,769,000
Unfunded construction loans	2,286,000	2,286,000	2,390,000	2,390,000
Undisbursed home equity and commercial lines of credit	16,596,000	16,596,000	11,822,000	11,822,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

12. Federal Income Taxes:

The components of income tax expense are as follows:

	<u>Years ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Federal:			
Current	\$ 748,136	454,986	495,379
Deferred	(13,099)	60,690	38,413
	<u>\$ 735,037</u>	<u>515,676</u>	<u>533,792</u>

Total income tax expense differed from the amounts computed by applying the federal statutory tax rates to pretax income as follows:

	<u>Years ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Tax at statutory rates	\$ 739,456	537,819	571,406
Benefit of tax exempt interest	(15,305)	(18,130)	(15,846)
Other	10,886	(4,013)	(21,768)
	<u>\$ 735,037</u>	<u>515,676</u>	<u>533,792</u>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities are as follows:

	<u>Years ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
Deferred tax asset arising from:		
Allowance for loan losses	\$ 518,600	438,400
Deferred loan fees and costs	11,500	17,200
Depreciation	-	49,900
Investment in partnership	216,200	144,800
Unrealized loss on securities	23,000	-
Other, net	56,400	57,000
Total deferred tax assets	<u>825,700</u>	<u>707,300</u>
Deferred tax liability arising from:		
Depreciation	(27,500)	-
FHLB stock	(673,900)	(619,100)
Like-kind exchange	(103,100)	(103,100)
Unrealized gain on securities	-	(294,400)
Total deferred tax liabilities	<u>(804,500)</u>	<u>(1,016,600)</u>
Net deferred tax asset (liability)	<u>\$ 21,200</u>	<u>(309,300)</u>

Net deferred tax assets (liabilities) and federal income tax expense in future years can be significantly affected by changes in enacted tax rates.

13. Benefit Plans:

The Company has a noncontributory defined contribution plan and an employee stock ownership plan which cover substantially all full-time employees after attaining age twenty-one and completing one year of service.

In 1996 the Company implemented a noncontributory defined contribution plan. The Company makes an annual contribution to the plan equal to 10% of the eligible employees' compensation. Total expense under this defined contribution plan was \$185,400, \$170,400 and \$166,400 for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company also has an employee stock ownership plan (ESOP). Each participant in the ESOP is assigned an account which is credited with cash and shares of common stock of the Company based upon compensation earned, subject to vesting on a graduated scale over six years. Contributions to the ESOP are made by the Company and can be in the form of either cash or common stock of First Franklin. The Company contributed \$100,000 to the ESOP in each of 2003, 2002 and 2001. At December 31, 2003, the ESOP is not leveraged, and all shares are allocated or committed to be allocated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

13. Benefit Plans, Continued:

All ESOP shares are considered outstanding for purposes of computing earning per share for 2003, 2002 and 2001. The Company's policy is to charge to expense the amount contributed to the ESOP. At December 31, 2003, the ESOP held 182,424 allocated shares and 1,500 shares committed to be allocated.

14. Lease Commitments:

The Company, as lessee, leases certain facilities under operating leases which expire over the next twenty years, with renewal options.

The following is a schedule, by years, of future minimum rental payments required under operating leases during the remaining noncancellable portion of the lease terms:

Year ending December 31:

2004	\$ 162,096
2005	123,854
2006	103,117
2007	104,917
2008	106,717
Thereafter	979,646
	\$ 1,580,347

Rent expense was \$205,114, \$201,644 and \$141,306 in 2003, 2002 and 2001, respectively.

The Company, as lessor, leases a portion of its administrative office under operating leases which expire over the next five years, with renewal options.

The following is a schedule, by years, of future minimum rental payments required under operating leases during the remaining noncancellable portion of the lease terms:

Year ending December 31:

2004	\$ 97,632
2005	100,701
2006	75,917
2007	72,545
2008	30,367
	\$ 377,162

15. Loans to Related Parties:

Certain officers and directors of the Company, including their families, had loans outstanding exceeding \$60,000 individually during the three-year period ended December 31, 2003. The following is an analysis of the activity of such loans for the years indicated:

	Years ended December 31,		
	2003	2002	2001
Balance, beginning of year	\$ 1,753,475	1,658,456	1,740,655
Loans originated	670,694	175,952	21,595
Repayments	(89,196)	(80,933)	(45,492)
Loans under threshold	-	-	(58,302)
New director	463,184	-	-
Balance, end of year	\$ 2,798,157	1,753,475	1,658,456

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

16. Loan Commitments:

In the ordinary course of business, the Company has various outstanding commitments to extend credit that are not reflected in the accompanying consolidated financial statements. These commitments involve elements of credit risk in excess of the amount recognized in the balance sheet.

The Company uses the same credit policies in making commitments for loans as it does for loans that have been disbursed and recorded in the consolidated balance sheet. The commitment generally requires that the borrower provide collateral which generally consists of a first mortgage on improved or unimproved real estate, when performance under the contract occurs.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Certain of these commitments are for fixed-rate loans, and, therefore, their value is subject to market risk as well as credit risk.

At December 31, 2003, the Company's total commitment to extend credit was approximately \$1,978,000, and the Company had commitments to disburse construction loans of approximately \$2,286,000. The Company also had undisbursed lines of credit on consumer and commercial loans of approximately \$16,596,000.

17. First Franklin Corporation - Parent Company Only Financial Information:

The following condensed balance sheets as of December 31, 2003 and 2002 and condensed statements of income and cash flows for each of the three years in the period ended December 31, 2003 for First Franklin Corporation should be read in conjunction with the consolidated financial statements and notes thereto.

CONDENSED BALANCE SHEETS

ASSETS

	December 31,	
	2003	2002
Cash	\$ 281,602	68,461
Investment in Franklin Savings	22,153,052	21,987,179
Other assets	3,161,041	2,993,537
	\$ 25,595,695	25,049,177

LIABILITIES AND STOCKHOLDERS' EQUITY

Borrowings	\$ 1,150,000	1,095,008
Liabilities	632,184	526,936
Preferred stock - \$.01 par value, 500,000 shares authorized, none issued and outstanding	-	-
Common stock - \$.01 par value, 2,500,000 shares authorized, 2,010,867 shares issued in 2003 and 2002.	13,406	13,406
Additional paid-in capital	6,189,237	6,189,237
Treasury stock, at cost - 368,309 shares in 2003 and 375,696 shares in 2002.	(3,682,217)	(3,753,053)
Retained earnings	21,337,640	20,406,116
Net unrealized gain (loss) on available-for-sale securities of parent and subsidiary	(44,555)	571,527
	\$ 25,595,695	25,049,177

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

17. First Franklin Corporation - Parent Company Only Financial Information, Continued:

CONDENSED STATEMENTS OF INCOME

	Years ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Equity in earnings of Franklin Savings	\$ 1,531,955	1,090,291	1,163,986
Interest income	1,031	1,252	19,655
Operating expenses	(404,045)	(360,156)	(309,343)
Other Income	228,192	242,157	238,966
Federal income tax benefit	82,700	92,600	33,550
Net Income	\$ 1,439,833	1,066,144	1,146,814

CONDENSED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:			
Net income	\$ 1,439,833	1,066,144	1,146,814
Equity in earnings of Franklin Savings	(1,531,955)	(1,090,291)	(1,163,986)
Dividend received from Franklin Savings	750,000	-	-
Change in other assets and liabilities	(112,256)	(65,683)	(4,771)
Net cash provided (used) by operating activities	545,622	(89,830)	(21,943)
Cash flows from investing activities:			
Net repayments of loans to Franklin Savings	-	125,000	500,000
Purchase of investment from Franklin Savings	-	(1,095,008)	-
Net cash provided (used) by investing activities	-	(970,008)	500,000
Cash flows from financing activities:			
Payment of dividends	(508,309)	(489,007)	(484,164)
Borrowed money	104,992	1,220,008	-
Issuance of treasury stock	70,836	260,059	-
Net cash provided (used) by financing activities	(332,481)	991,060	(484,164)
Net increase (decrease) in cash	213,141	(68,778)	(6,107)
Cash at beginning of year	68,461	137,239	143,346
Cash at end of year	\$ 281,602	68,461	137,239

In 2002, Franklin Savings sold its \$1 million investment in Financial Institutions Partners III, L.P. to First Franklin. The investment was sold at the estimated fair market value of \$1,095,008. First Franklin financed this transaction with borrowings from a bank. The gain on the sale from this transaction is eliminated in consolidation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

18. Madison Service Corporation:

In accordance with OTS requirements, the following summary of financial information of Madison Service Corporation for the year ended December 31, 2003, is presented:

BALANCE SHEET

ASSETS

Cash	\$	256,221
Other assets		15,000
	\$	<u>271,221</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities	\$	75
Equity		271,146
	\$	<u>271,221</u>

STATEMENT OF OPERATIONS

Revenues:		
Interest Income	\$	4,396
Service fees and other		5,949
Operating expenses		<u>(3,102)</u>
Income before federal income tax		7,243
Federal income tax		2,463
Net income	\$	<u>4,780</u>

a. Summary of significant accounting policies:

The accounting policies followed in the preparation of the financial statements of Madison Service Corporation are included in Note 1.

b. Intercompany transactions:

Intercompany transactions with Franklin Savings, which are not material, have been eliminated in consolidation.

c. Franklin Savings' investment in Madison Service Corporation consists of:

Common stock, 220 shares issued and outstanding	\$	110,000
Retained earnings		161,146
	\$	<u>271,146</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

19. Earnings Per Share:

Earnings per share (EPS) for the years ended December 31, 2003, 2002 and 2001 are calculated as follows:

For the year ended December 31, 2003			
	Income (numerator)	Shares (denominator)	Per-share amount
Basic EPS			
Income available to common stockholders	\$ 1,439,833	1,638,591	\$ 0.88
Effect of dilutive securities:			
Stock options 1997 and 2002 Plan	-	49,396	
Diluted EPS			
Income available to common stockholders + assumed conversions	\$ 1,439,833	1,687,987	\$ 0.85
For the year ended December 31, 2002			
	Income (numerator)	Shares (denominator)	Per-share amount
Basic EPS			
Income available to common stockholders	\$ 1,066,144	1,628,260	\$ 0.65
Effect of dilutive securities:			
Stock options 1997 and 2002 Plan	-	-	
Diluted EPS			
Income available to common stockholders + assumed conversions	\$ 1,066,144	1,628,260	\$ 0.65
For the year ended December 31, 2001			
	Income (numerator)	Shares (denominator)	Per-share amount
Basic EPS			
Income available to common stockholders	\$ 1,146,814	1,613,873	\$ 0.71
Effect of dilutive securities:			
Stock options 1997 Plan	-	-	
Diluted EPS			
Income available to common stockholders + assumed conversions	\$ 1,146,814	1,613,873	\$ 0.71

The effect of the stock options was anti-dilutive for the years ended December 31, 2002 and 2001, therefore the stock options were not included in the dilutive EPS for those periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

20. Quarterly Financial Information (Unaudited):

All adjustments necessary for a fair statement of operations for each period have been included.

	<u>2003</u>			
	(Dollars in thousands except per share data)			
	<u>First quarter</u>	<u>Second quarter</u>	<u>Third quarter</u>	<u>Fourth quarter</u>
Interest income	\$ 3,943	3,714	3,615	3,563
Interest expense	2,433	2,273	2,140	1,941
Net interest income	1,510	1,441	1,475	1,622
Provision for loan losses	61	53	72	50
Net interest income after provision for loan losses	1,449	1,388	1,403	1,572
Noninterest income	565	637	592	298
Noninterest expense	1,400	1,486	1,410	1,433
Income before federal income taxes	614	539	585	437
Federal income taxes	207	183	192	153
Net income	\$ 407	356	393	284
Earnings per common share				
Basic	\$ 0.25	0.22	0.24	0.17
Diluted	\$ 0.25	0.21	0.23	0.16

	<u>2002</u>			
	(Dollars in thousands except per share data)			
	<u>First quarter</u>	<u>Second quarter</u>	<u>Third quarter</u>	<u>Fourth quarter</u>
Interest income	\$ 4,366	4,299	4,304	4,085
Interest expense	3,044	2,966	2,887	2,700
Net interest income	1,322	1,333	1,417	1,385
Provision for loan losses	19	29	28	29
Net interest income after provision for loan losses	1,303	1,304	1,389	1,356
Noninterest income	254	301	596	908
Noninterest expense	1,300	1,992	1,411	1,126
Income before federal income taxes	257	(387)	574	1,138
Federal income taxes	80	(142)	187	391
Net income	\$ 177	(245)	387	747
Earnings per common share				
Basic	\$ 0.11	(0.15)	0.24	0.45
Diluted	\$ 0.11	(0.15)	0.24	0.45

First Franklin Corporation

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President - CEO

Daniel Voelpel
Vice President - CFO

Gretchen Schmidt
Secretary - Treasurer

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Attorney

Donald E. Newberry, Sr.
Pastor, Lee Chapel AME Church

John L. Nolting
President and CEO, DataTech Services, Inc.

Thomas H. Siemers
President and CEO

Mary W. Sullivan
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Franklin Savings & Loan Company

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Vice President - Compliance & Internal Audit

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