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Franklin Financial Services Corporation

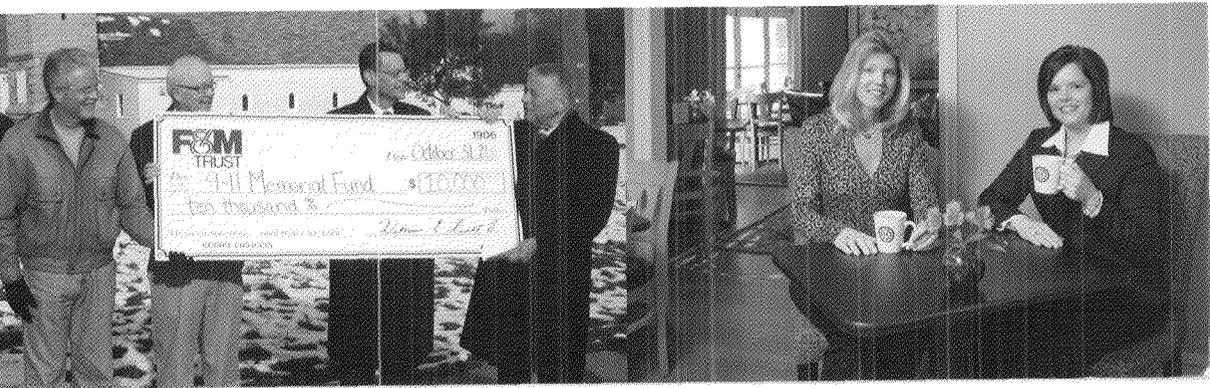
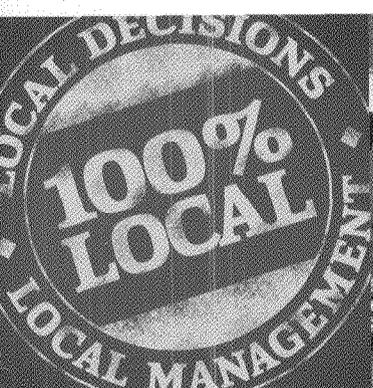
2011 ANNUAL REPORT



SOUND, STABLE, AND SUPPORTING OUR COMMUNITIES AND LOCAL ECONOMY



SERVING FRANKLIN, CUMBERLAND, FULTON AND HUNTINGDON COUNTIES



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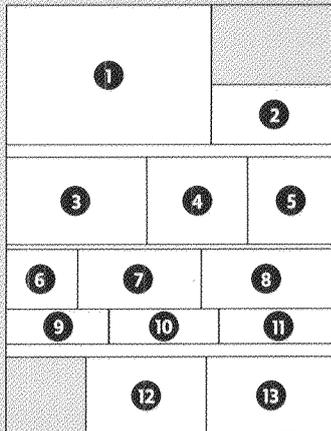


**Franklin Financial**  
Services Corporation

Franklin Financial Services Corporation (the Corporation) is a holding company with headquarters in Chambersburg, PA. The Corporation's direct subsidiary is The Farmers and Merchants Trust Company of Chambersburg (the bank, F&M Trust).



F&M Trust is a full-service bank offering investment, trust, commercial and retail services with twenty-five community offices in Franklin, Cumberland, Fulton and Huntingdon Counties.



#### FRONT COVER IMAGES:

1. F&M Trust Office, Camp Hill
2. Greencastle-Antrim Education Foundation
3. Pennsylvania Highlands Community College, Huntingdon Center
4. White Rock, Inc./Penn National, Fayetteville
5. Chuck Porter (right) with trust clients, Chambersburg
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11. Shippensburg Emergency Services
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13. Highline Coffeehouse & Café, Greencastle

# CONSOLIDATED FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share)	2011	2010	% increase (decrease)
<b>Performance Measurement</b>			
Net income	\$6,569	\$ 7,612	(14)
Return on average assets	0.66%	0.78%	
Return on average equity	7.68%	9.34%	
Return on average tangible assets <sup>1</sup>	0.70%	0.82%	
Return on average tangible equity <sup>1</sup>	9.30%	11.27%	
Efficiency ratio <sup>2</sup>	63.46%	63.43%	
Net interest margin	3.73%	3.53%	
Current dividend yield	8.74%	5.92%	
Dividend payout ratio	65.05%	55.10%	
<b>Balance Sheet Highlights</b>			
Total assets	\$990,248	\$951,889	4
Investment Securities (includes restricted stock)	130,323	123,775	5
Loans, net	756,687	739,841	2
Deposits and customer repurchase agreements	841,089	785,495	7
Shareholders' equity	87,182	82,639	5
<b>Shareholders' Value (per common share)</b>			
Diluted earnings per share	\$1.66	\$ 1.96	(15)
Basic earnings per share	1.66	1.96	(15)
Regular cash dividends paid	1.08	1.08	-
Book value	21.67	21.09	3
Tangible book value <sup>3</sup>	19.04	18.28	4
Market value	12.35	18.25	(32)
Market value/book value ratio	56.99%	86.53%	
Price/earnings multiple	7.44	9.31	
<b>Safety and Soundness</b>			
Leverage ratio (Tier 1)	8.40%	8.16%	
Risk-based capital ratio (Tier 1)	12.14%	11.73%	
Common equity ratio	8.80%	8.68%	
Tangible common equity ratio <sup>4</sup>	7.82%	7.61%	
Nonperforming assets/gross loans	2.94%	3.68%	
Nonperforming assets/total assets	2.60%	2.96%	
Allowance for loan losses as a percentage of loans	1.27%	1.18%	
Net charge-offs/average loans	0.86%	0.45%	
Average equity to average asset ratio	8.63%	8.36%	
<b>Trust Assets</b>			
Trust assets under management (market value)	\$481,536	\$490,420	(2)

1 Excludes goodwill, intangibles and intangible amortization expense, net of tax.

2 Noninterest expense / tax equivalent net interest income plus noninterest income less net securities gains.

3 Total shareholders' equity less goodwill and intangibles / shares outstanding.

4 Total shareholders' equity less goodwill and intangibles / total assets less goodwill and intangibles.

# SUMMARY OF SELECTED FINANCIAL DATA

For the year ended, December 31

(dollars in thousands, except per share)

	2011	2010	2009	2008	2007
<b>Summary of Operations</b>					
Interest income	\$ 41,791	\$ 43,284	\$ 43,757	\$ 46,156	\$ 49,487
Interest expense	9,154	12,443	14,674	16,037	23,796
Net interest income	32,673	30,841	29,083	30,119	25,691
Provision for loan losses	7,524	3,235	3,438	1,193	990
Net interest income after provision for loan losses	25,113	27,606	25,645	28,926	24,701
Noninterest income	10,200	9,366	8,880	6,538	10,107
Noninterest expense	28,333	26,423	25,929	23,189	22,793
Income before income taxes	6,980	10,549	8,596	12,275	12,015
Income tax	411	2,937	2,011	3,680	2,759
Net income	\$ 6,569	\$ 7,612	\$ 6,585	\$ 8,595	\$ 9,256
<b>Performance Measurements</b>					
Return on average assets	0.66%	0.78%	0.69%	1.01%	1.14%
Return on average equity	7.68%	9.34%	8.69%	10.99%	12.62%
Return on average tangible assets <sup>1</sup>	0.70%	0.82%	0.74%	1.05%	1.18%
Return on average tangible equity <sup>1</sup>	9.30%	11.27%	10.79%	13.19%	15.41%
Efficiency ratio <sup>2</sup>	63.46%	63.43%	65.35%	61.25%	61.28%
Net interest margin	3.73%	3.53%	3.44%	4.03%	3.67%
Current dividend yield	8.74%	5.92%	6.61%	5.92%	4.17%
Dividend payout ratio	65.05%	55.10%	62.95%	47.66%	42.77%
<b>Shareholders' Value (per common share)</b>					
Diluted earnings per share	\$ 1.66	\$ 1.96	\$ 1.71	\$ 2.24	\$ 2.40
Basic earnings per share	1.66	1.96	1.71	2.24	2.41
Regular cash dividends paid	1.08	1.08	1.08	1.07	1.03
Book value	21.67	21.09	20.39	19.10	20.18
Tangible book value <sup>3</sup>	19.04	18.28	17.38	15.94	17.27
Market value	12.35	18.25	16.33	18.25	24.95
Market value/book value ratio	56.99%	86.53%	80.09%	95.55%	123.64%
Price/earnings multiple	7.44	9.31	9.55	8.15	10.40
<b>Balance Sheet Highlights</b>					
Total assets	\$990,248	\$951,889	\$979,373	\$902,460	\$820,371
Investment securities (includes restricted stock)	130,323	123,775	149,770	154,041	168,906
Loans, net	756,687	739,841	730,626	668,860	564,256
Deposits and customer repurchase agreements	841,089	785,495	794,220	691,653	674,434
Shareholders' equity	87,182	82,639	78,766	73,059	77,642
<b>Safety and Soundness</b>					
Leverage ratio (Tier 1)	8.40%	8.16%	7.50%	7.84%	8.18%
Risk-based capital ratio (Tier 1)	12.14%	11.73%	10.89%	11.02%	12.28%
Common equity ratio	8.80%	8.68%	8.04%	8.10%	9.46%
Tangible common equity ratio <sup>4</sup>	7.82%	7.61%	6.94%	6.85%	8.21%
Nonperforming loans/gross loans	2.94%	3.68%	2.47%	0.59%	1.01%
Nonperforming assets/total assets	2.60%	2.96%	1.93%	0.44%	0.73%
Allowance for loan losses as a % of loans	1.27%	1.18%	1.21%	1.09%	1.29%
Net charge-offs/average loans	0.86%	0.45%	0.26%	0.19%	0.09%
Average equity to average asset ratio	8.63%	8.36%	7.98%	9.18%	8.98%
<b>Trust Assets</b>					
Trust assets under management (market value)	\$481,536	\$490,420	\$460,233	\$497,215	\$507,920

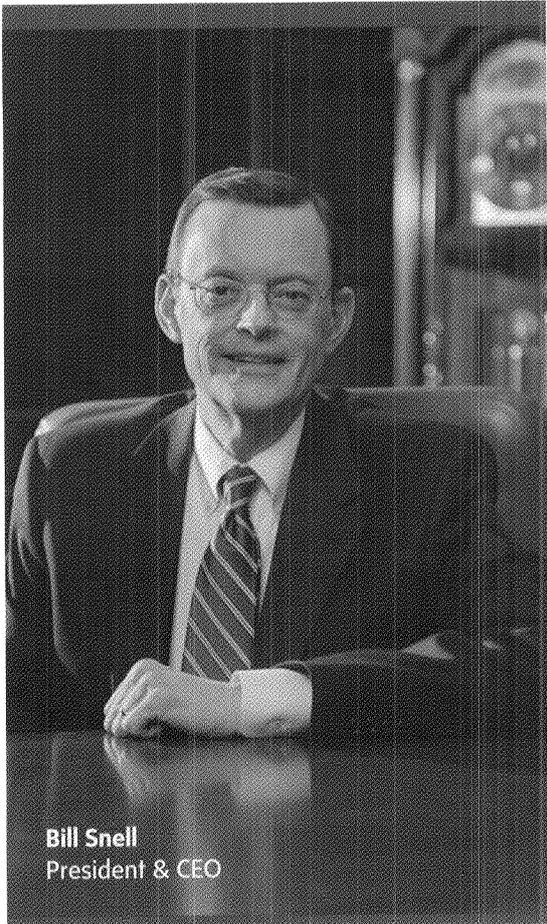
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2 Noninterest expense / tax equivalent net interest income plus noninterest income less net securities gains.

3 Total shareholders' equity less goodwill and intangibles / shares outstanding.

4 Total shareholders' equity less goodwill and intangibles / total assets less goodwill and intangibles.

# A MESSAGE TO OUR SHAREHOLDERS



**Bill Snell**  
President & CEO

Dear Shareholder:

Franklin Financial reported earnings of \$6,569,000 in 2011, representing a 13.7% decline from our 2010 earnings of \$7,612,000. Diluted earnings per share decreased to \$1.66 per share in 2011 from \$1.96 per share in 2010.

As a shareholder, you received cash dividends of \$1.08 per share matching the regular cash dividends paid in 2010. Our current annual dividend payout represents an 8.74% return based upon the closing price of Franklin Financial stock at December 31, 2011. The market value of a share of Franklin Financial stock decreased from a closing price of \$18.25 at December 31, 2010 to \$12.35 at December 31, 2011. Following a brief downturn in December, the market value of a share of Franklin Financial stock rebounded back to the \$14 to \$15 range.

The key factor impacting our performance in 2011 was a \$4,289,000 increase in the Provision for Loan Losses from \$3,235,000 to \$7,524,000. This dramatic increase reflects higher levels of loan delinquency and lower real estate valuations resulting from the prolonged recession. We are routinely experiencing appraisal values 40-60% lower than 18-36 months ago and are immediately allocating through the Provision Expense or charging off to the Allowance for Loan and Lease Losses for any collateral shortfalls. Our Net Charge-offs in 2011 totaled \$6,602,000 with 42% related to lower valuations on five real estate projects.

Non-Accruing Loans totaled \$17,756,000 at year-end. Approximately 59% of this amount related to three customer relationships while 74% of our Other Real Estate Owned is related to a fourth relationship. We are working diligently to exit these credits.

Franklin Financial's total assets at December 31, 2011 were \$990,248,000 as compared to \$951,889,000 one year earlier, an increase of 4%.

Net loans grew by 2.3% on a year-over-year basis while average loan outstandings increased by \$11,077,000 or 1.5%. Commercial loan demand remained relatively strong with average loan outstandings in this portfolio increasing \$35,921,000 or 6.2%. Average consumer loan outstandings decreased 17.3% to \$91,969,000 as consumers continued to focus on reducing debt and increasing savings. Average residential

mortgage loan outstandings declined by \$5,652,000 or 8.5% as we continue to hold fewer mortgages in our portfolio.

Total deposits and repurchase agreements as measured at year-end increased by 7.1% to \$841,000,000 while average deposits and repurchase agreements increased 6.5% to \$838,277,000. Average core deposits (i.e. checking, savings, and interest bearing checking) increased by \$35,000,000 or 15%. Average balances in our Money Management Account increased by \$37,300,000 or 13.7% as the competitive yield and liquidity offered by this product continued to be attractive to customers.

Our Net Interest Margin increased from 3.53% in 2010 to 3.73% on a fully tax equivalized basis as we aggressively lowered deposit rates throughout the year and carefully managed our loan pricing. Accordingly, fully tax equivalized Net Interest Income increased by \$2,465,000 or 11.25% during 2011 to \$34,367,000. We also prepaid \$15,585,000 in higher cost term advances from the Federal Home Loan Bank of Pittsburgh. Although we incurred prepayment penalties of \$344,000, this action will benefit Net Interest Income in future years.

The market value of assets under management by our Investment & Trust Services Department decreased by 1.8% to \$481,536,000 at December 31, 2011, reflecting lower market valuations. Assets under management as reported does not include approximately \$114,600,000 in assets held at third party brokers at December 31, 2011 compared to \$113,700,000 at year-end 2010. Investment & Trust Services fee income, including revenue generated through the Personal Investment Centers, increased 2.8% from \$3,844,000 in 2010 to \$3,953,000 in 2011.

Our financial condition remains strong as evidenced by a Total Risk-Based Capital Ratio of 12.14% and a Leverage Capital Ratio of 8.40%. These ratios remain above the levels that federal regulators require for an institution to be considered "well capitalized."

Our Tangible Capital Ratio, which measures Total Equity net of Goodwill and Intangible Assets as a percentage of Total Assets excluding Goodwill and Intangible Assets stands at 7.82% at year-end up from 7.61% at December 31, 2010. This ratio is increasingly used by regulators and investors as a measure of capital adequacy.

In last year's Shareholder Letter, I discussed significant amendments to the



The bank pledged \$75,000 to the Greencastle-Antrim Education Foundation (GAEF) in support of the Maximizing Arts and Athletics Excellence (MAAX) Capital Campaign. GA-MAAX's mission is to raise money to maximize arts and athletic opportunities within the Greencastle-Antrim School District while strengthening community pride.

IN OUR COMMUNITY

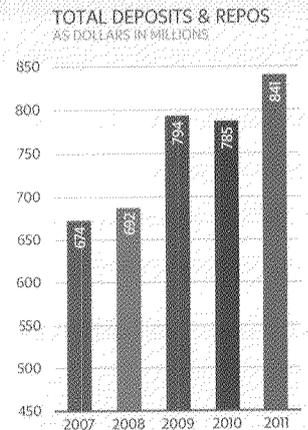
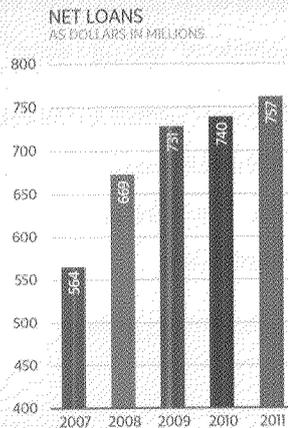
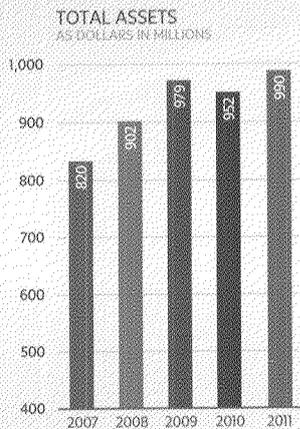
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# F&M TRUST MANAGEMENT TEAM

From left:  
 Dennis Ginder  
 Karen Carmack  
 Lise Shehan  
 Mark Hollar  
 Bill Snell  
 Mike Kugler  
 Ron Cekovich  
 Ken Ditzler  
 Trish Hanks

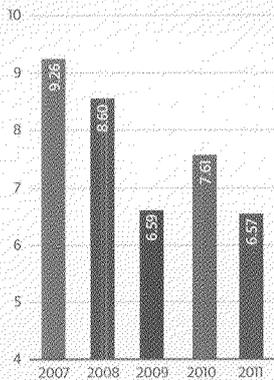


## FINANCIAL HIGHLIGHTS

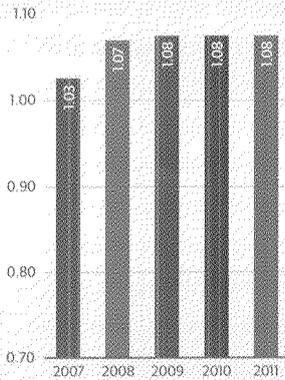




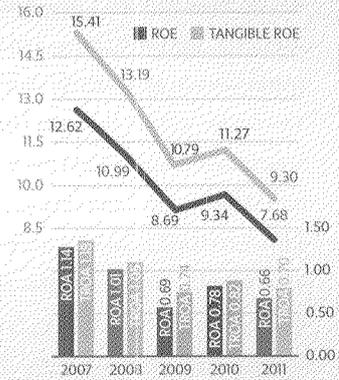
**NET INCOME**  
AS DOLLARS IN MILLIONS



**REGULAR CASH DIVIDENDS PAID**  
AS DOLLARS PER SHARE



**ROE/ROA**  
AS PERCENTAGE VALUES



# HIGHLINE COFFEEHOUSE & CAFÉ

## FRANKLIN COUNTY



Two decades ago, **Kim Robinson** established her personal path to success—first, as owner of Heritage Hills Retirement Home and then as owner of Builder of Unique Homes, Inc. In 2010, Kim encountered an opportunity to develop and lease out a unique property next to the historic train station in Greencastle. Rather than simply manage the property and lease it to other businesses, she saw greater potential and decided to open a new business—Highline Coffeehouse & Café. Since its opening in August 2010, the coffee and restaurant business has increased steadily. With seating inside and outside, Kim and her staff can serve up to 100 persons for lunch and dinner. In fact, business has grown so well that she has acquired a liquor license and is hiring even more staff to help serve her hungry, thirsty clients. Kim attributes her ongoing success to both entrepreneurial thinking and to working with community banking experts like **Mary Cordell** at F&M Trust. Kim loves the local service, friendly people, and appreciates how responsive the entire bank has been—helping her with key financial needs along the way. To learn more about Highline Coffeehouse & Café, visit: [www.highlinecoffeehouseandcafe.com](http://www.highlinecoffeehouseandcafe.com).

Left to right:

**Kim Robinson**  
Owner  
Highline Coffeehouse  
& Café

**Mary Cordell**  
Commercial Services  
Relationship Manager  
F&M Trust

Franklin Financial Services Corporation Dividend Reinvestment and Stock Purchase Plan ("the Plan") designed to enhance our capital adequacy by providing our shareholders with a convenient and economical way to purchase additional shares of Franklin Financial common stock by reinvesting cash dividends paid on their shares or through optional cash payments. These amendments included:

- authorizing the issuance of an additional 1,000,000 shares of common stock on the terms and conditions of the Plan.
- modifying the minimum and maximum amounts that may be invested pursuant to the voluntary cash payment option under the Plan.
- providing for the investment of voluntary cash payments via ACH transfer.
- modifying the formula for determining the purchase price with respect to shares purchased under the Plan directly from Franklin Financial rather than on the open market.

We are delighted with the response by our shareholders. During the five quarters since the September 30, 2010 effective date of these amendments, in excess of \$2,000,000 has been invested through the Plan.

On July 1st, F&M Trust celebrated the fifth anniversary of the acquisition of Fulton County National Bank and Trust. Each of our offices in Fulton and Huntingdon Counties served light refreshments as we recapped our community involvement and impact since the merger. At the end of September, we held a similar celebration marking the fifth anniversary of the opening of our Greencastle Community Office.

In early July, we completed a conversion to a new core processing system. Over thirty employees from all functional areas participated in the selection process which involved demonstrations, site visits, reference calls, as well as a detailed financial analysis. I would like to take this opportunity to thank them for their hard work and dedication in this process. Along with increased efficiency and usability, this new system will enable us to offer additional services such as online account statements, which were introduced shortly after conversion, and online account openings, which will be introduced during 2012.

We made two significant additions to strengthen our Management Group during the year as we prepare for continued growth in a challenging regulatory and economic environment.

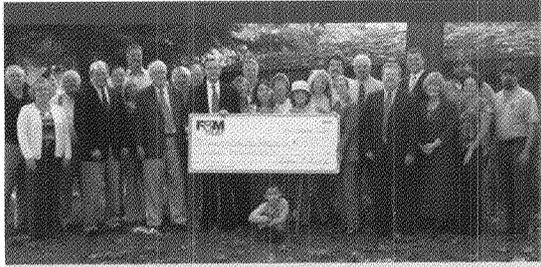
In July, Dennis Ginder joined us as a Senior Vice President and Risk Management



F&M Trust contributed \$10,000 toward construction of Franklin County's 9/11 Memorial at the Letterkenny Chapel. The United Churches of the Chambersburg Area (UCCA) and 9/11 Memorial Fund committee are raising funds for this memorial consisting of a sculpture that features three steel beams from the World Trade Center on a 10-foot square granite clad base to resemble the collapse of the buildings following the terrorist attacks on September 11, 2001. The sculpture, by local artist Michael Fisher, will weigh nearly a ton and will be completed in time for Armed Forces Day on May 19th. The memorial will be surrounded by a walkway lined with flags representing police, firefighters, emergency medical technicians, and 911 responders.

IN OUR COMMUNITY

CONTINUED



The bank's financial support of \$15,000 enabled Washington Township to acquire and preserve its first Monterey Pass Battlefield property in Blue Ridge Summit. The donation to The Friends of Monterey Pass Battlefield, Inc., put the non-profit group at their \$102,000 goal, and enabled the acquisition of what is known as the Cantwell Site. Their mission is to preserve and protect the battlefield by acquiring lands or facilitating the acquisition of lands comprising the battlefield. The organization has begun plans for an interpretive center on the Civil War Battle of Monterey Pass and will serve as steward of the land. The battlefield is the site of what is believed to be the second largest Civil War battle in Pennsylvania and the only battle fought on both sides of the Mason-Dixon line. It was the first major action to occur after the Battle of Gettysburg. Monterey Pass, the shortest route from Gettysburg to the Potomac River, served as Lee's retreat path from Gettysburg.

## IN OUR COMMUNITY

Officer. Dennis has an extensive background in credit management as well as commercial services and lending during his thirty years in banking. As Risk Management Officer at F&M Trust, Ginder is responsible for ensuring that the bank maintains adequate policies to control credit, operational, compliance and other risks. In addition, his duties include developing the bank's enterprise risk management program, ensuring the overall quality of the bank's loan portfolio and acting as a liaison to the bank's internal audit and loan review firms.

In August, Lise Shehan joined F&M Trust as Senior Vice President and Investment & Trust Services Manager. With over twenty years experience in wealth management with CoreStates Hamilton Bank, Fulton Bank, and Hershey Trust Company, Lise brings to us broad supervisory, legal, fiduciary, compliance and relationship management expertise. Among her priorities will be focusing on the expansion of our Investment & Trust Services business in Cumberland County and the general growth of the department to over a billion dollars in assets under management over the next few years.

In February of this year, we initiated a checking account acquisition strategy aimed at increasing our market share. This campaign targets customers of other financial institutions who are being impacted by disruptions relating to merger or regulatory issues.

Using a predictive statistical model, prospects are selected based upon those most likely to respond in targeted markets that we serve. The program will be complimented by our successful OnBoarding program which I discussed in last year's Annual Shareholder Letter, to effectively expand relationships and cross-selling of banking services. Customer service and sales training, tell-a-friend referrals, mystery shopping, and performance monitoring will support the effectiveness of this program.

Our small business lending initiative continues to produce measurable results. F&M Trust continues to partner with the Small Business Development Centers (SBDCs) at Shippensburg University and St. Francis University to present educational programs and workshops for aspiring, as well as existing, small business owners throughout our marketplace. We continue to be the exclusive sponsor of the "First Step" and "Business Planning" workshops conducted by the SBDCs. F&M Trust's Small Business Relationship Managers participate in each workshop, presenting a segment focusing on financial options. The workshops provide entrepreneurs with education, information, and tools to build and sustain business, which will directly benefit our economy. In addition, partnering with these SBDCs has provided F&M Trust with an opportunity to increase our penetration of the small business market. Our Small Business Contact

CONTINUED

# CENTRAL PA FOOD BANK CENTRAL PENNSYLVANIA



Left to right:

**Kendall Hanna**  
Executive Director  
Central PA Food Bank

**Chris Dimov**  
Project Manager  
Grant Writer  
Central PA Food Bank

**Dave Gority**  
Vice President –  
Investment & Trust Services  
Relationship Manager  
F&M Trust

**Kendall Hanna** and **Chris Dimov** know the local community counts on them every single day. As Central Pennsylvania Food Bank (CPF) celebrates thirty years of dedicated service, they feel they are doing things right with their approach to smart business management. In addition to relying on dedicated staff and volunteers, they count on steady revenues to support ongoing initiatives. That's where **Dave Gority** and the F&M Trust Investment & Trust Services team come in. As trustee of a local charitable trust fund, F&M Trust helps protect assets and maximize performance so CPF can count on distribution revenues from the fund. Dave and the F&M Trust team are dedicated to delivering the Main Street advantage to CPF and to every client. That means local, face-to-face service; active monitoring; and the confident experience that comes with being responsible for nearly \$500 million in managed assets. To support or learn more about the Central Pennsylvania Food Bank, visit: [www.centralpafoodbank.org](http://www.centralpafoodbank.org).

# HIPPENSTEEL'S AUTO, INC. CUMBERLAND COUNTY



Since 1969, **Rick Hippensteel**, owner of Hippensteel's Auto, Inc. in Newville, has worked to build a reputation for great personal service to his automotive customers. So when he decided to expand his facilities recently, he turned to a local resource who has been just as focused on providing great personal service—F&M Trust. With a customized financial solution from **Brian Weikert** and **Ellen Ile**, Rick was able to expand with new self-storage facilities and install the latest energy features, including a solar panel system that reduces his energy bills. Rick has noted that he prefers the local, down-to-earth service he receives from Brian and Ellen whenever he needs anything, without any "big bank attitudes to deal with." That's good, because it's the style of personal service Brian and Ellen intend to deliver to every business client. To learn more about Hippensteel's Auto, Inc., you can find them on Facebook at: [www.fb.com/hippensteelsauto](http://www.fb.com/hippensteelsauto)

Left to right:

**Brian Weikert**  
Vice President –  
Commercial Services  
Relationship Manager  
F&M Trust

**Rick Hippensteel**  
Owner  
Hippensteel's Auto, Inc.

**Ellen Ile**  
Financial Services  
Officer and Manager  
F&M Trust

Program, initiated in 2010, features a customized calendar highlighting F&M Trust's ability to provide customized solutions as well as an impact movie highlighting our Small Business services and staff. This program continues to generate new prospects for us and will continue to be a focus for our small business activities in 2012.

F&M Trust was recently approved by the U.S. Small Business Administration for its SBA Express and Patriot Express programs. SBA Express and Patriot Express delegate the underwriting of a loan application to the participating bank ... we utilize our forms, loan policy, approval process, and documentation. SBA Express and Patriot Express are also the only Small Business Administration programs that permit us to extend a true revolving line of credit with an SBA guarantee. Patriot Express provides for a higher maximum loan size of \$500,000 as well as a higher guarantee percentage for qualifying military veterans. We are excited about the potential of these two programs.

With the core processing conversion now behind us, we are focusing on a number of product and service enhancements that will be rolled out in 2012. In May, we will unveil a new look to our bank website. The redesign of [fmtrustonline.com](http://fmtrustonline.com) will update the appearance of the web design for both conventional and mobile applications.

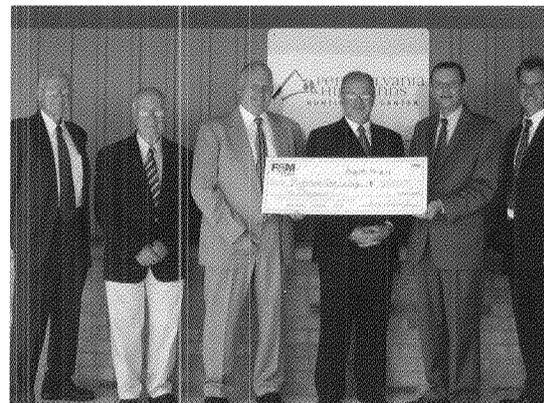
This upgraded website will be more intuitive and easy to navigate with new functionality as well. Website users will now find searchable data tools and campaign-based messaging. Business customers will be able to complete a loan pre-application, and we'll be adding resources, including online newsletters, a library with video presentations, and a photo directory of officers.

Customers who are on the go will be able to access account balances and other information whenever and wherever they want with our mobile banking platform. A rollout of this new service is scheduled for the fourth quarter.

F&M Trust will also be implementing a new Debit Card issuance program. These cards will be produced locally instead of being produced and mailed from Tennessee. This means that turn around time will be cut in half and expedited card orders can be accommodated easily.

Additionally, we are planning to offer our customers the ability to create their own customized Freedom Cards (MasterCard® Debit Card). You will be able to select an image from your PC, Facebook, Twitter, Flickr, or Picasa, customize the image, and create the card.

Our ATM network expanded again in 2011. In January, we opened an ATM on



The bank's \$15,000 contribution will assist in the development of the Huntingdon Center of Pennsylvania Highlands Community College, which opened last August. Pennsylvania Highlands made an initial investment of more than \$400,000 to renovate the space and purchase equipment necessary to operate the branch campus. F&M Trust will contribute up to \$5,000 annually over a three-year period.

IN OUR COMMUNITY

CONTINUED



At the groundbreaking ceremony, F&M Trust announced a \$50,000 donation to the Shippensburg Emergency Services Building Capital Campaign to support the new facility on the corner of Orange Street and Walnut Bottom Road on the site of the former University Lodge Budget Host motel. This \$7.2 million project will enable the Vigilant Hose Fire Company and Shippensburg Area EMS in sustaining and expanding their service with this exceptional facility to support the safety and wellness in the community through the construction of a 30,000 square foot facility, for which F&M Trust also provided \$5.1 million in financing.

## IN OUR COMMUNITY

the campus of Quincy Village, and in September, we opened a drive-up ATM at 9966 Molly Pitcher Highway in Shippensburg. The Shippensburg West End ATM is the thirty-fifth machine in our network and is located on a 1.01-acre site that will accommodate a full-service banking office should we decide to construct a community banking office at this location in the future.

We also completed a project to increase security in several operational areas housed at our Memorial Square Headquarters. With the implementation of a card access system, areas such as Data Operations, Deposit Operations, and Loan Operations have limited access keeping confidential information more secure.

We will make an additional investment in upgrading our community office network in 2012. In the early second quarter, we will relocate our existing community banking office in Newville from 9 West Big Spring Avenue to 51 South High Street. This new office, although occupying less square footage than the current facility, will offer full-service banking including drive-up teller and ATM service, safety deposit boxes, as well as lobby service. The new site is part of a revitalization project undertaken by 3T Investors, LP. A portion of the property will be set aside for a town clock as well as a Christmas tree. Our current 9 West Big Spring Avenue location will be utilized in another phase of this project as well, providing additional parking, a green-space courtyard, and a building with commercial space on the first floor, with apartments on the second and third floors.

In the fourth quarter of 2012, we plan to open our twenty-sixth office in Mechanicsburg at Silver Creek Plaza on the Pike. This site, currently being developed by Smith Land and Improvement Corporation, is located on the Carlisle Pike in Hampden Township, Cumberland County, and will feature a 50,000 square foot Toys R Us/Babies R Us anchor plus a restaurant and 13,400 square feet of additional retail space.

Our site in Silver Creek Plaza on the Pike will be highly visible and is located adjacent to Silver Spring Square which includes Wegmans, Target, OfficeMax, and Bed Bath & Beyond. The average daily traffic count of this location is in excess of 35,000 vehicles per day. In addition to a lobby with teller stations and customer service offices, as well as drive-up teller and drive through ATM services, this new facility will provide offices and conference rooms for additional Commercial and Small Business Services staff as well as Residential Mortgage Originators and Investment & Trust Services staff.

Before concluding, I would like to take this opportunity to recognize and thank

CONTINUED

# NEEDMORE FIRE COMPANY FULTON COUNTY



Left to right:

**Robert Fleagle**  
Assistant Chief  
Needmore Fire Company

**Gerri Fischer**  
Financial Services  
Officer and Manager  
F&M Trust

**Don Trego**  
Assistant Vice President –  
Small Business  
Relationship Manager  
F&M Trust

**Wavy Kirk**  
President  
Needmore Fire Company

**Kenneth Sigel III**  
Chief  
Needmore Fire Company

Since 1965, **Needmore Volunteer Fire Company** has been protecting homes and businesses throughout southern Fulton County. Having strong financial resources is important to the *Fighting Fifty Five's* leaders and more than 300 members. As a 100% local community bank, F&M Trust understands the organization's financial needs—helping them make the most of deposit accounts, while building the best financing solutions to manage expenses related to property improvements and equipment upgrades. **Gerri Fischer** and **Don Trego** of F&M Trust work hard to support the fire company, knowing the whole community counts on the organization for reliable emergency services. Needmore's volunteers enjoy getting everything they need (and more!) from their community banking relationship with F&M Trust—financing flexibility, everyday value, and very responsive service. To learn more about Needmore Volunteer Fire Company, visit: [www.needmorefire.org](http://www.needmorefire.org).

# PENN NATIONAL FRANKLIN COUNTY



In 1968, Penn National was the first eighteen-hole golf course in Franklin County. Now, after forty years of well-planned growth, the property has developed into a thriving adult community—housing 1,000 families and featuring two championship golf courses. When **Dennis Zimmerman** and **Patti Nitterhouse** of White Rock, Inc., became leaders of the multi-faceted business in 1995, they knew they could continue to count on great personal service from F&M Trust. After all, F&M Trust had been serving their personal and business financial needs for decades. Today, **Mike Kugler** and **Renee Preso** of F&M Trust make sure Dennis and Patti receive responsive, personal service on all their financial needs. Because of this solid commitment to client service, it's very possible that future generations of the family will choose to enjoy a rewarding financial relationship with F&M Trust as well.

Above, left to right:

**Dennis Zimmerman**  
President  
White Rock, Inc.

**Patti Nitterhouse**  
Vice President  
White Rock, Inc.

**Renee Preso**  
Assistant Vice President –  
Southern Franklin County  
Market Manager  
F&M Trust

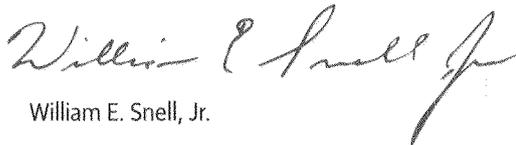
**Mike Kugler**  
Senior Vice President –  
Commercial Services  
Market Manager  
F&M Trust

Chuck Sioberg, who retired at the end of 2011 as Chairman of the Franklin Financial and F&M Trust Boards, for his twenty-nine years of service. Chuck was elected to the Board of Franklin Financial and F&M Trust in 1982. During his tenure, Chuck served on many of our Board committees including, most recently, Audit, Nominating, Personnel, Credit Risk Oversight and our Executive Committees. He was elected Vice Chairman of the Board in 2002 and served as Chairman from January 2003 through 2011. His insight, wisdom, and support will be missed.

Our perspective is that 2012 will be yet another challenging year for financial institutions with a continuation of low interest rates and high levels of unemployment and loan delinquencies. The outcome of the forthcoming election may significantly impact the regulatory environment for all financial institutions as well as the economic outlook.

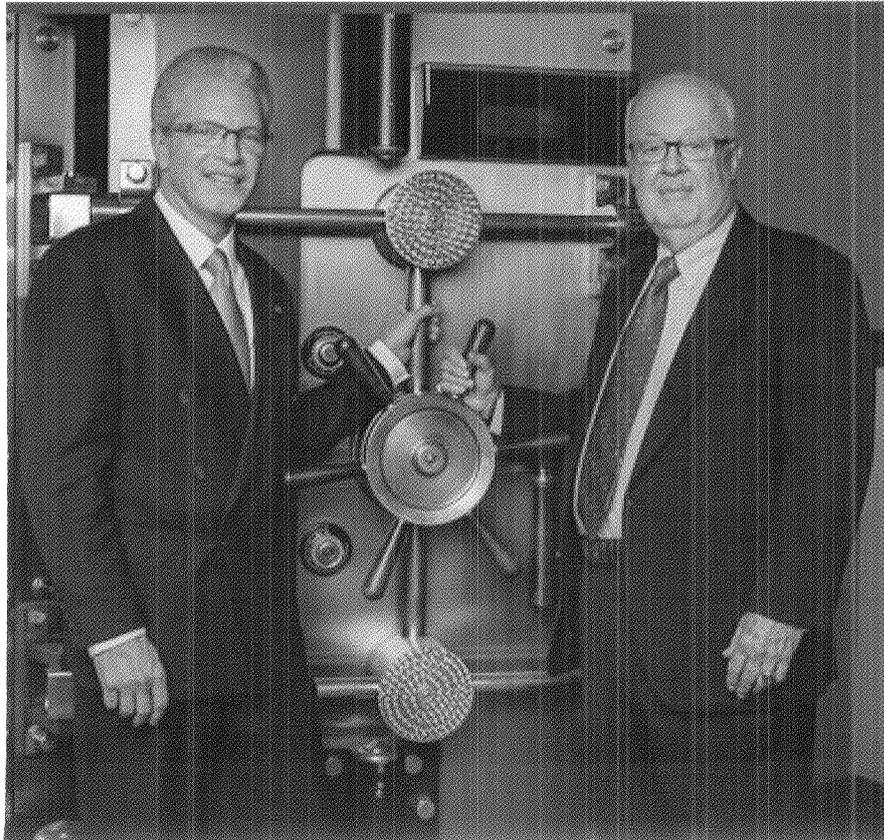
Your interest and support as Franklin Financial shareholders is certainly appreciated.

Sincerely,



William E. Snell, Jr.

President & CEO



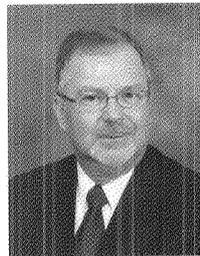
## A TRADITION OF LEADERSHIP

New Chairman of the Board **Warren Elliott** (left), was elected as Vice Chairman last year, and replaced **Chuck Sioberg** (right) upon his retirement on December 31, 2011. Sioberg joined the boards of Franklin Financial and F&M Trust in 1982. In 2002, he was appointed Vice Chairman of the Board, and served as Chairman from January 2003 until the end of 2011.

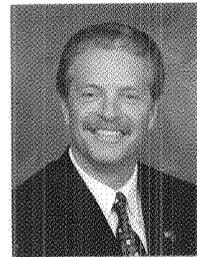
# FFSC BOARD OF DIRECTORS



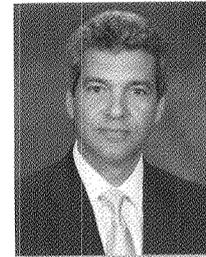
**Charles S. Bender II**  
Retired –  
F&M Trust Executive  
Vice President



**Martin R. Brown**  
President –  
M.R. Brown Funeral  
Home, Inc.



**G. Warren Elliott**  
President – Cardinal  
Crossing, Inc.  
Former Franklin County  
Commissioner



**Daniel J. Fisher**  
President and Chief  
Executive Officer –  
D.L. Martin Company



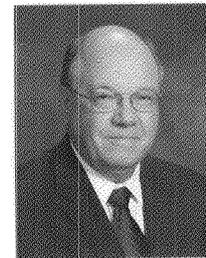
**Donald A. Fry**  
President –  
Cumberland Valley Rental  
and Towne Cleaners –  
ANDOCO, Inc.



**Allan E. Jennings, Jr.**  
President – Jennings  
Chevrolet, Buick,  
GMC, Inc.



**Stanley J. Kerlin, Esq.**  
Attorney –  
Law Offices of  
Stanley J. Kerlin, LLC



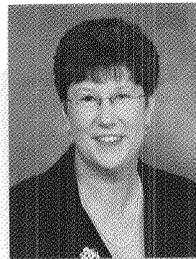
**Donald H. Mowery**  
President –  
R. S. Mowery & Sons, Inc.



**Stephen E. Patterson, Esq.**  
Principal –  
Salzmann Hughes P.C.



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



**Martha B. Walker, Esq.**  
Partner –  
Walker, Connor &  
Spang, LLC

## FFSC OFFICERS

**G. Warren Elliott**  
Chairman of the Board

**Mark R. Hollar**  
Chief Financial Officer and Treasurer

**Joyce A. Riley**  
Assistant Corporate Secretary

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

**Catherine C. Angle**  
Corporate Secretary



# OFFICERS

## Management

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

**Mark R. Hollar**  
Senior Vice President  
Chief Financial Officer and  
Treasurer

**Karen K. Carmack, SPHR**  
Senior Vice President  
Human Resources Manager,  
Affirmative Action and HIPAA  
Privacy Officer

**Ronald L. Cekovich**  
Senior Vice President  
Technology Services Manager

**Kenneth C. Ditzler**  
Senior Vice President  
Marketing and Corporate  
Communications Manager

**E. Dennis Ginder**  
Senior Vice President  
Risk Management Officer

**Patricia A. Hanks**  
Senior Vice President  
Retail Services Market Manager

**Michael E. Kugler**  
Senior Vice President  
Commercial Services Market Manager

**Lise M. Shehan, Esq.**  
Senior Vice President  
Investment & Trust Services  
Manager

## Relationship Management Division

### Commercial Services

**Dianne L. Cornman, CTP**  
Vice President  
Cash Management Specialist

**Michael S. Metz**  
Vice President

**Philip A. Pantano**  
Vice President

**Brian E. Weikert**  
Vice President

**David P. Zimmerman**  
Vice President

**Kathleen M. Bloss**  
Assistant Vice President

**Mary S. Cordell**  
Commercial Services  
Relationship Manager

**Jeremy D. Culler**  
Credit Analyst

**Eric J. Fleming**  
Small Business Credit Analyst

**Maria S. Seabra**  
Credit Analyst

**Jennifer D. Kaiser**  
Commercial Services  
Support Specialist

### Retail Services

**L. Kay Estep**  
Assistant Vice President  
GO Club Coordinator

## CHAMBERSBURG MARKET OFFICES

Lincoln Way East Office

---

**Kim S. McKenrick**  
Assistant Vice President and Manager

**Lisa A. Hogue**  
Assistant Financial Services Officer  
and Assistant Manager

Memorial Square Office

---

**Summer Franzoni**  
Assistant Vice President and Manager

**Dana L. Kaiser**  
Financial Services Officer  
and Assistant Manager

**Pamela J. Kolsun**  
Assistant Financial Services Officer

**Tiffany A. Miller**  
Assistant Financial Services Officer

Orchard Park Office

---

**Antonia L. Diffenderfer**  
Assistant Vice President and Manager

Penn Hall and Menno Village Offices

---

**Barbara A. Seylar**  
Financial Services Officer and Manager

Philadelphia Avenue Office

---

**Eric L. Alleman**  
Financial Services Officer and Manager

Norland Avenue Office

---

**Shaun M. Young**  
Financial Services Officer and Manager

St. Thomas Office

---

**Melanie D. Gordon**  
Financial Services Officer and Manager

West Side Office

---

**N. Joy Weller**  
Vice President and Manager

# OFFICERS *(continued)*

## SOUTHERN FRANKLIN COUNTY MARKET OFFICES

### **Renee L. Preso**

Assistant Vice President  
Southern Franklin County  
Market Manager

### **Lynn A. Waite**

Small Business Relationship Manager

### Greencastle Office

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### **Lisa A. Cesa**

Financial Services Officer and Manager

### Marion Office

---

### **Vicky L. Carson**

Assistant Financial Services Officer  
and Assistant Manager

### Mont Alto Office

---

### **Brian J. Over**

Financial Services Officer  
and Manager

### **Linda K. Stottlemeyer**

Assistant Financial Services Officer  
and Assistant Manager

### Waynesboro Office

---

### **Natasha J. Koons**

Financial Services Officer  
and Manager

### **Chastity L. Wantz**

Assistant Financial Services Officer  
and Assistant Manager

## CUMBERLAND COUNTY MARKET OFFICES

### **Anthony L. Damore**

Assistant Vice President  
Cumberland County Market Manager

### **Lindsay J. Reisinger**

Small Business Relationship Manager

### Boiling Springs Office

---

### **Kevin M. Stoner**

Financial Services Officer  
and Manager

### Camp Hill Office

---

### **Katrina E. Buck**

Financial Services Officer and Manager

### Carlisle Crossing Office

---

### **David R. Winters**

Assistant Vice President and Manager

### Newville Office

---

### **Ellen L. Ile**

Financial Services Officer  
and Manager

### Ritner Highway and Hanover Street Offices

---

### **I. Edward Bidelspach**

Assistant Vice President and Manager

### Shippensburg Office

---

### **Barbara A. Hoover**

Financial Services Officer  
and Manager

## FULTON & HUNTINGDON COUNTIES MARKET OFFICES

### **Paul M. Johnston**

Assistant Vice President  
Fulton County Market Manager

### **Donald L. Trego**

Assistant Vice President  
Small Business Relationship Manager

### Hustontown Office

---

### **Denise M. Doyle**

Financial Services Officer and Manager

### McConnellsburg Office

---

### **Mary E. Wright**

Financial Services Officer  
and Manager

### Orbisonia Office

---

### **Shawna C. Dunmire**

Financial Services Officer  
and Manager

### Penns Village Office

---

### **Brenda J. Gordon**

Financial Services Officer  
and Manager

### Warfordsburg Office

---

### **Geraldine A. Fischer**

Financial Services Officer  
and Manager

## Consumer Lending Services

### **Susan E. Michael**

Vice President

### **Mark E. Bitting**

Mortgage Production Manager

## Investment & Trust Services

### **Thomas L. Peterson, RFC, ChFC, CFP®, LUTCF**

Vice President  
Investment & Trust Services  
Market Manager

### **Warren M. Hurt**

Vice President  
Senior Investment Portfolio Manager

### **Carole L. Crist**

Vice President  
Investment & Trust Services

### **Ronald R. Froeschle, CPA, CKA**

Vice President  
Employee Benefits Officer

### **David C. Gority**

Vice President  
Investment & Trust Services

### **John C. McGowan**

Vice President  
Investment & Trust Services

### **Charles R. Porter**

Vice President  
Business Development

### **James P. Probst**

Vice President  
Investment & Trust Services

## OFFICERS *(continued)*

**Diana L. Sponseller**  
Vice President  
Investment & Trust Services

**Dennis L. Wilson, CFA**  
Vice President  
Investment & Trust Services

**Heather C. Hershey**  
Estate Administration Officer

**Robin L. Murray**  
Trust Operations Manager

**Matthew T. Brennan**  
Assistant Investment &  
Trust Services Officer  
Personal Investment Counselor

**Avis M. Graham, CFP®, RFC, CASL**  
Assistant Investment &  
Trust Services Officer  
Personal Investment Counselor

**Roderick C. Salter, fss**  
Assistant Investment &  
Trust Services Officer  
Personal Investment Counselor

### Marketing

**Samantha J. Burke**  
Marketing Officer

**Melissa D. Miller**  
Marketing Officer

### Facilities

**Barry L. Shetter**  
Assistant Vice President

### Finance & Control

**Kim A. Diehl**  
Financial Analyst

**Amy B. Herrold**  
Controller

### Human Resources

**Levi L. Crouse**  
Human Resources Officer

**Christina L. Yoder**  
Training and Development Officer

### Corporate

**Catherine C. Angle**  
Corporate Secretary

**Joyce A. Riley**  
Assistant Corporate Secretary

### Risk Management Division

**Olaf R. Hasse**  
Vice President  
Loan Portfolio Risk  
Management Officer

**Eric M. Follin**  
Documentation Review Officer

**Matthew R. Shank**  
Assistant Documentation  
Review Officer

**Janef E. Stamper**  
Assistant Documentation  
Review Officer

### Compliance

**Lorie M. Heckman, CRCM**  
Vice President  
Bank Secrecy Act, Compliance  
and Security Officer

**Mary F. Cramer**  
Bank Secrecy Act and OFAC Analyst

**Sheryl R. Snider**  
Assistant Compliance Officer

### Credit Administration

**William A. Pryor**  
Vice President  
Credit Recovery Manager

**Tricia A. Baney**  
Credit Recovery Officer

### Technology Services Division

**Matthew C. Clark**  
Assistant Vice President  
Assistant Technology  
Services Officer

**Patricia R. Ganoe**  
Deposit Operations Manager

**Pamela A. Johns**  
Assistant Vice President  
Loan Servicing Manager

**Carol L. Morris**  
Assistant Loan Servicing Manager

**Stacey A. Stenger**  
Data Operations Manager

## GENERAL CONTACT INFORMATION

**FFSC / F&M Trust Headquarters**  
Local: 717-264-6116  
Toll Free: 888-264-6116

**Freedom Access Center**  
(telephone banking service)  
Local: 717-261-3662  
Toll Free: 888-261-3662

**24-Hour Online Access**  
[www.fmtrustonline.com](http://www.fmtrustonline.com)



Greencastle  
Community Office

Lincoln Way East  
Community Office

## COMMUNITY OFFICE LOCATIONS

### Chambersburg Area

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

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

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

**Norland Avenue**  
870 Norland Avenue  
Chambersburg  
717-262-2085

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

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

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

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

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

### Southern Franklin County

**Greencastle**  
518 N. Antrim Way  
Greencastle  
717-597-2384

**Marion**  
5293 Main Street  
Marion  
717-375-2200

**Mont Alto**  
8 Park Street  
Mont Alto  
717-749-3161

**Waynesboro**  
200 East Main Street  
Waynesboro  
717-762-2188

### Cumberland County

**Boiling Springs**  
3 East First Street  
Boiling Springs  
717-241-4131

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

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

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

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

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

**Shippensburg**  
13 Shippensburg  
Shopping Center  
717-530-2100

### Fulton and Huntingdon Counties

**Hustontown**  
7781 Waterfall Road  
Hustontown  
717-987-3193

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

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

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

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



**Carlisle Plaza Drive-Up**  
in Carlisle

**Ayr Town Center**  
in McConnellsburg

## STAR®/CIRRUS® ATM LOCATIONS

### **Chambersburg Area**

**Downtown Drive-Up**  
150 Lincoln Way East  
Chambersburg

**Fayetteville**  
4025 Lincoln Way East  
Fayetteville

**Lincoln Way East**  
1712 Lincoln Way East  
Chambersburg

**Menno Village**  
2075 Scotland Avenue  
Chambersburg

**West Side**  
1100 Lincoln Way West  
Chambersburg

**Norland Avenue**  
870 Norland Avenue  
Chambersburg

**Northgate Commons**  
1500 Northfield Drive  
Chambersburg

**Orchard Park**  
841 Wayne Avenue  
Chambersburg

**Penn Hall**  
1425 Philadelphia Avenue  
Chambersburg

**Philadelphia Avenue**  
2405 Philadelphia Avenue  
Chambersburg

**St. Thomas**  
6962 Lincoln Way West  
St. Thomas

### **Southern Franklin County**

**Greencastle**  
518 North Antrim Way  
Greencastle

**Marion**  
5293 Main Street  
Marion

**Mont Alto**  
8 Park Street  
Mont Alto

**Penn National Clubhouse**  
3720 Clubhouse Drive  
Fayetteville

**Quincy Village**  
6596 Orphanage Road  
Quincy

**Waynesboro**  
200 East Main Street  
Waynesboro

**Waynesboro Market Place**  
11123 Buchanan Trail East  
Waynesboro

**Zullinger**  
4884 Buchanan Trail East  
Zullinger

### **Cumberland County**

**Boiling Springs**  
3 East First Street  
Boiling Springs

**Camp Hill**  
3907 Market Street  
Camp Hill

**Carlisle Crossing**  
214A Westminster Drive  
Carlisle

**Carlisle Plaza Drive-Up**  
700 East High Street  
Carlisle

**Hanover Street**  
14 North Hanover Street  
Carlisle

**Newville**  
9 West Big Spring Avenue  
Newville

**Ritner Highway**  
1901 Ritner Highway  
Carlisle

**Shippensburg**  
13 Shippensburg  
Shopping Center

**Shippensburg West End**  
9966 Molly Pitcher Highway  
Shippensburg

### **Fulton & Huntingdon Counties**

**Ayr Town Center**  
368 South 2nd Street  
McConnellsburg

**Hustontown**  
7781 Waterfall Road  
Hustontown

**McConnellsburg**  
100 Lincoln Way East  
McConnellsburg

**Orbisonia**  
18810 Sandy Ridge Station  
Orbisonia

**Penns Village**  
182 Buchanan Trail  
McConnellsburg

**Riverview Business Center**  
11734 Lenape Drive  
Mount Union

**Warfordsburg**  
560 Great Cove Road  
Warfordsburg

# FFSC SHAREHOLDERS' INFORMATION

## Dividend Reinvestment Plan

Franklin Financial Services Corporation offers a dividend reinvestment program whereby shareholders with stock registered in their own names may reinvest their dividends in additional shares of the Corporation. Information concerning this optional program is available by contacting the Corporate Secretary at 20 South Main Street, PO Box 6010, Chambersburg, PA 17201-6010, telephone 717-264-6116.

## Dividend Direct Deposit Program

Franklin Financial Services Corporation offers a dividend direct deposit program whereby shareholders with stock registered in their own names may choose to have their dividends deposited directly into the bank account of their choice on the dividend payment date. Information concerning this optional program is available by contacting the Corporate Secretary at 20 South Main Street, PO Box 6010, Chambersburg, PA 17201-6010, telephone 717-264-6116.

## Annual Meeting

The Annual Shareholders' Meeting will be held Tuesday, April 24, 2012 at the Orchards Restaurant in Chambersburg. The Business Meeting will begin at 10:30 a.m. and will be followed by a luncheon. If interested in attending, please complete and return the reservation form reply card by April 10th.

## Stock Information

The following brokers are registered as market makers of Franklin Financial Services Corporation's common stock:

Boenning & Scattergood, Inc.  
4 Tower Bridge  
200 Bar Harbor Drive, Suite 300  
West Conshohocken, PA 19428  
800-883-1212

Morgan Keegan & Co., Inc.  
3050 Peachtree Road, NW, Suite 704  
Atlanta, GA 30305  
866-353-7522

RBC Wealth Management  
2101 Oregon Pike  
Lancaster, PA 17601  
800-604-1471

Stifel, Nicolaus & Co.  
20 Ash Street, Suite 400  
Conshohocken, PA 19428  
800-223-6807

## Registrar and Transfer Agent:

The registrar and transfer agent for Franklin Financial Services Corporation is Fulton Financial Advisors, N.A., One Penn Square, PO Box 4887, Lancaster, PA 17602, telephone 717-291-2546.

**Web Site:** [www.franklinfin.com](http://www.franklinfin.com)

## MARKET & DIVIDENDS

The Corporation's common stock is not actively traded in the over-the-counter market. The Corporation's stock is listed under the symbol "FRAF" on the O.T.C. Electronic Bulletin Board, an automated quotation service. Current price information is available from account executives at most brokerage firms as well as the registered market makers of Franklin Financial

Services Corporation common stock as listed above under Shareholders' Information. There were 2,071 shareholders of record as of December 31, 2011. The range of high and low bid prices, as reported by local sources is shown below for the years 2011 and 2010. Also shown are the regular quarterly cash dividends paid for the same years.

2011 Per Share			Dividends
	High	Low	Paid
First quarter	\$17.00	\$15.19	\$0.27
Second quarter	18.25	17.10	0.27
Third quarter	17.50	15.10	0.27
Fourth quarter	15.55	12.30	0.27

\$1.08

2010 Per Share			Dividends
	High	Low	Paid
First quarter	\$17.00	\$15.19	\$0.27
Second quarter	18.75	16.75	0.27
Third quarter	17.50	16.50	0.27
Fourth quarter	18.40	16.50	0.27

\$1.08



**Franklin Financial**  
Services Corporation

P.O. BOX 6010 - CHAMBERSBURG, PA 17201 - 888.264.6116 - WWW.FRANKLINFIN.COM