

Investor Presentation

July 2020

F&M TRUST

Franklin Financial
Services Corporation

Forward Looking Statements

Certain statements appearing herein which are not historical in nature are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements refer to a future period or periods, reflecting management's current views as to likely future developments, and use words "may," "will," "expect," "believe," "estimate," "anticipate," or similar terms. Because forward-looking statements involve certain risks, uncertainties and other factors over which Franklin Financial Services Corporation has no direct control, actual results could differ materially from those contemplated in such statements. These factors include (but are not limited to) the following: general economic conditions, changes in interest rates, changes in the Corporation's cost of funds, changes in government monetary policy, changes in government regulation and taxation of financial institutions, changes in the rate of inflation, changes in technology, the intensification of competition within the Corporation's market area, and other similar factors.

We caution readers not to place undue reliance on these forward-looking statements. They only reflect management's analysis as of this date. The Corporation does not revise or update these forward-looking statements to reflect events or changed circumstances. Please carefully review the risk factors described in other documents the Corporation files from time to time with the SEC, including the Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and any Current Reports on Form 8-K.

CEO Comments

Since our shareholder meeting on April 28, 2020, Franklin Financial Services Corporation and its wholly owned bank, F&M Trust of Chambersburg, have been working diligently to maintain earnings and position the company to successfully navigate a near term future that, while difficult if not impossible to foretell, is likely to be challenging as the effects of the pandemic and a potential decrease in stimulus payments takes hold of the economy.

The company is making moves to minimize compression of its net interest margins, bolster fee income producing lines of business, analyze and strengthen its loan portfolio and add to loan loss reserves and capital in order to be positioned well for future growth when the effects of the pandemic subside.

Due to the steps we have been taking we are able to prudently maintain our quarterly cash dividend at $.30 per share.

The following investor presentation being released on Form 8(k) is a supplement to our quarterly earnings release. While it remains very difficult to give clear earnings guidance for the rest of the year, we can give you insight as to where we are today and what we are doing for tomorrow. We appreciate the support of our shareholders and I am available to you at anytime to listen to your concerns and ideas and answer your questions to the best of my ability.

Sincerely,



Response to COVID-19 Pandemic



Operational Response



Customer Assistance



Communication and Marketing



Community Support

Operational Response

- F&M Trust Community Office hours were temporarily adjusted at select locations effective April 27, 2020 due to reduced customer traffic
- All F&M Trust Community Offices fully reopened and returned to normal hours of operation effective July 13, 2020
- Modified operations at the bank's Brookview Community Office remain until further notice due to specific circumstances at the Menno Haven retirement community
- To protect the bank's at-risk customers, F&M Trust lobbies are reserved for senior citizens (customers age 60 and older) and those with underlying health conditions on Tuesdays and Thursdays from 9:00 a.m. to 10:00 a.m.
- Employee work-from-home rotation schedules ceased on June 19, 2020 and were reinstituted on July 17, 2020 due to new orders from the Commonwealth of Pennsylvania

Operational Response

- F&M Trust continues to take the following health and safety precautions at all offices:
  - Requiring face masks or face coverings for employees and customers
  - Placing decals on floors to help maintain social distancing
  - Thoroughly cleaning and disinfecting workstations, counters and commonly used areas
  - Using clear protections (sneeze guards) for workstations in common areas

- Provided ongoing updates and guidance for employees pursuant to the bank's Return to Work plan as local counties moved through the Red, Yellow and Green phases of reopening

- Modified the bank's Paid Time Off (PTO) policy due to the pandemic's impact on employees' ability to take PTO and to provide supervisors greater flexibility in managing PTO requests

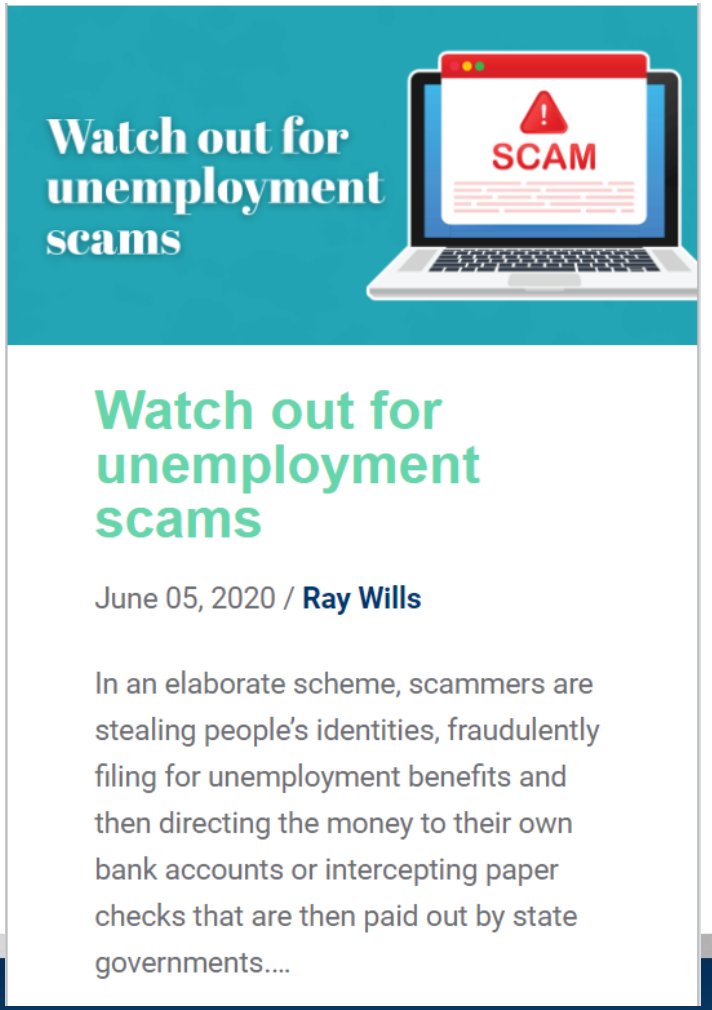
Operational Response

- Maintained COVID-19 Response Team consisting of the following senior leaders:
  - Timothy G. Henry – *President and Chief Executive Officer*
  - Lorie Heckman – *Senior Vice President, Chief Risk Officer*
  - Karen K. Carmack, DM – *Senior Vice President, Chief Human Resources Officer*

- The bank's COVID-19 Response Team and additional senior leaders listed below continue to conduct weekly virtual briefings to coordinate operations and monitor issues related to the COVID-19 pandemic
  - Mark R. Hollar – *Senior Vice President, Chief Financial Officer & Treasurer*
  - Steven D. Butz – *Senior Vice President, Chief Commercial Services Officer*
  - Patricia A. Hanks – *Senior Vice President, Chief Retail Services Officer*
  - Ronald L. Cekovich – *Senior Vice President, Chief Information & Operations Officer*
  - Matthew D. Weaver – *Senior Vice President, Chief Marketing Officer*

Customer Assistance

- Directed customers to the bank's convenience services including online banking, the F&M Trust mobile banking app, Freedom Access Center (telephone banking) and call center
- Introduced an Emergency Personal Line of Credit for existing and non-customers who are experiencing a financial hardship
- Responded to requests from commercial and retail customers to provide loan modifications including three to six month interest-only or full payment deferrals due to economic conditions
- Posted content on social media channels and the bank's blog, Money Moves, educating our customers and communities of fraud and scams related to COVID-19



Customer Assistance

- Continued participation in the Paycheck Protection Program (PPP), under the Coronavirus Aid, Relief and Economic Security (CARES) Act, to offer economic relief for local businesses
- Allocated bank-wide resources to support the program and funded 732 loans for $62.8 million for F&M Trust customers and non-customers
- F&M Trust continues to support PPP loan applications during the extended funding period through August 8, 2020 and forgiveness applications for eligible borrowers
- To date, the Paycheck Protection Program loans are expected to impact 732 small businesses with over 8,000 employees within the F&M Trust marketplace
- Anticipate $2.1 million in deferred origination fees from PPP loans to be recognized over the expected two-year life of the loans; income recognition may be accelerated if PPP loans are granted forgiveness

Communication and Marketing

- Published ongoing content to the bank's website, fmtrust.bank, with updates and resources related to COVID-19, Community Office reopening, the Paycheck Protection Program and the CARES Act federal stimulus payments

- Provided timely and valuable information to customers through multiple channels including email, social media, online and mobile banking and office drive-up windows

- Launched "Ahead" campaign on television, radio, outdoor, digital and direct mail to promote the shift in consumer sentiment as businesses and communities begin to reopen



Community Support

- F&M Trust donated $100,000 to be distributed among various organizations across the bank's marketplace for COVID-19 relief efforts

- The funds for this effort were reallocated from budgeted business development activities, bank events and sponsorships that were cancelled due to COVID-19

- Organizations receiving the investment include the United Way of Franklin County, the United Way of the Capital Region, the United Way of Carlisle & Cumberland County, the United Way of the Shippensburg area, the Fulton County Family Partnership and numerous fire companies and emergency rescue services that support the bank's community office network



YTD Financial Updates

- Continued to monitor and reduce deposit rates in response to market conditions
- Net interest margin is 3.39% compared to 3.80% for the same period in 2019
- Allowance for loan loss ratio of 1.64%; non-performing loan ratio of 0.41%
- Recorded a provision for loan loss expense of $2.0 million for the second quarter of 2020 due to changing Qualitative Factors related to the COVID-19 pandemic
- Provided payment modifications on 290 loans totaling approximately $196 million
- Capital position remained strong with a total risk-based capital ratio of 15.93% and a leverage ratio of 9.22%

YTD Financial Updates

- Maintained the dividend at $0.30 per share for the third quarter of 2020
- Liquidity remained strong both on the balance sheet and with resources available if needed including Paycheck Protection Program Liquidity Facility (PPPLF) funding
- Profitability in 2020 has positioned the company to increase the allowance for loan losses and strengthen capital levels as the company heads into a time of economic uncertainty
- Loan-to-deposit ratio of 79% enhances liquidity position and allows for quality lending opportunities
- Significant reduction in participation loans has improved overall portfolio credit quality

YTD Financial Updates

- New mortgage originations totaled $37.4 million, an increase of 110.3% from 2019
- Fee income from new mortgages originated for sale in the secondary market increased $214,000 over the same period in 2019
- Consumer loan originations increased 139.2% when compared to 2019, primarily due to the bank's new FlexLOC® home equity product
- Online banking and mobile banking users have increased 9.0% and 18.0% respectively from the same period in 2019 as customers transition to digital banking channels
- After-hours call center usage increased 49.0% from June 2019 to June 2020, with peak volume occurring in March 2020 at 508 customer calls handled

Loan Modifications by Industry*

Dollars in Thousands (000's)	Balance	Percent of Gross Loans	Real Estate	Non-Real Estate
Real Estate and Rental and Leasing	$72,389	7%	$72,138	$251
Accommodation and Food Services	$70,796	7%	$70,260	$536
Retail Trade	$24,198	2%	$24,063	$135
Health Care and Social Assistance	$6,974	1%	$5,434	$1,540
Construction	$4,590	< 1%	$2,635	$1,955
Arts, Entertainment, and Recreation	$3,842	< 1%	$3,466	$376
Agriculture, Forestry, Fishing and Hunting	$2,705	< 1%	$2,603	$102
Other Services (except Public Administration)	$1,801	< 1%	$1,537	$264
Administrative / Support & Waste Mgmt. / Remed. Services	$1,521	< 1%	$1,263	$258
Transportation and Warehousing	$1,407	< 1%	$440	$967
Public Administration	$396	< 1%	$396	$ –
Professional, Scientific, and Technical Services	$360	< 1%	$ –	$360
Manufacturing	$311	< 1%	$120	$191
Residential and Consumer Loans	$5,198	1%	$5,161	$37
Total	**$196,488**	**19%**	**$189,516**	**$6,972**

*Loan deferrals as of June 30, 2020 by North American Industry Classification System (NAICS) code and type of collateral

Pandemic Risk by Industry and Collateral

Dollars in Thousands (000's)			
Medium Risk		Real Estate Secured	Non-Real Estate Secured
Retail – Consumer Loans – Non-Real Estate	$5,821	$0	$5,821
Construction	$65,792	$57,710	$8,082
Real Estate and Rental and Leasing	$295,032	$282,948	$12,084
Total	**$366,645**	**$340,658**	**$25,987**
High Risk			
Arts, Entertainment and Recreation	$14,649	$13,677	$972
Retail Trade – Non Operating Sectors	$34,109	$31,835	$2,274
Accommodation and Food Services	$79,107	$77,611	$1,496
Total	**$127,865**	**$123,123**	**$4,742**

Liquidity Available at June 30, 2020

Dollars in Thousands (000's)			
Liquidity Source	**Capacity**	**Outstanding**	**Available**
Federal Home Loan Bank	$372,200	$ –	$372,200
Federal Reserve Bank Discount Window	$23,000	$ –	$23,000
Correspondent Banks	$21,000	$ –	$21,000
Total	**$416,200**	**$ –**	**$416,200**

Outlook for Remainder of 2020

- Anticipating a challenging economic environment and slow recovery in the second half of 2020 and into 2021 with potential for a deterioration in credit metrics
- The low interest rate environment will continue to put pressure on net interest margin
- Moderate loan demand through the balance of 2020 and strong competition to meet that demand will temper loan growth
- Deposit growth likely as depositors look for safety for their funds
- We anticipate and have prepared for customers continuing to transition to digital banking and call center channels for day-to-day financial needs

Outlook for Remainder of 2020

- Residential mortgage business will continue to grow due to high levels of refinance business and increasing levels of home purchases
- Improving performance from the Investment & Trust Services business line primarily due to rebound in equity market performance and cost control
- Recognized fee income from Paycheck Protection Program as loans are forgiven

Financial Updates

Second Quarter Ended June 30, 2020

F&M TRUST

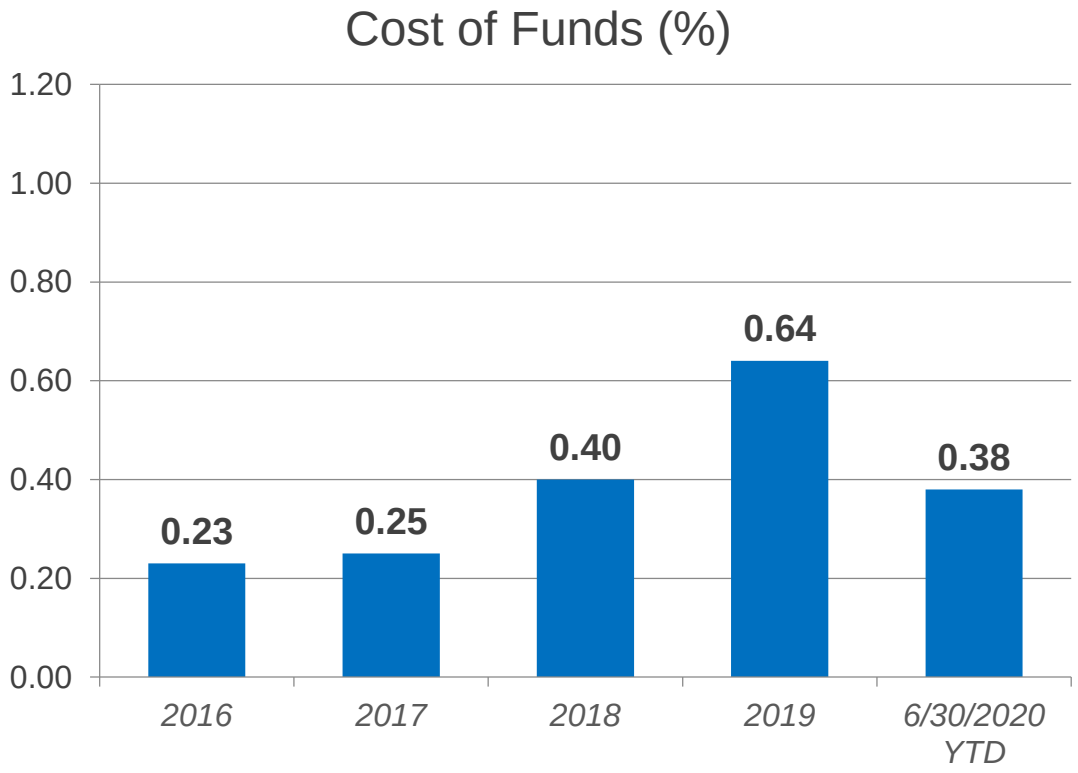
Franklin Financial Services Corporation

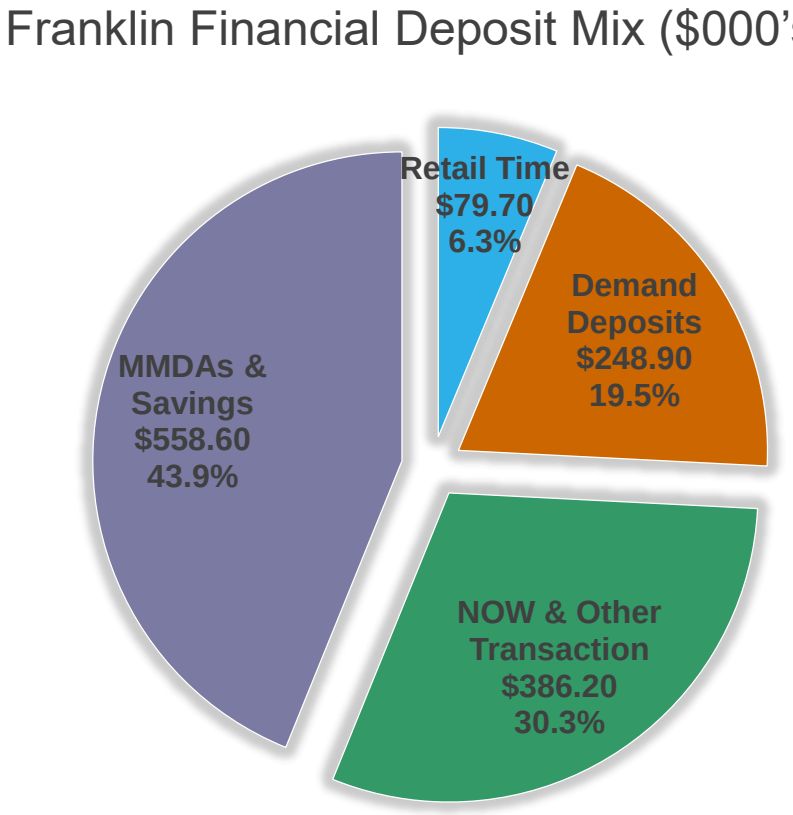
A Balanced Revenue Model

Annualized Noninterest Income Source as a percentage of Average Assets as of June 30, 2020	2020 Franklin Financial	Median PA Banks Peer[1]
Trust	0.44%	0.06%
BOLI	0.04%	0.05%
Insurance / Investment Banking / Brokerage	0.02%	0.06%
Loan Fees & Charges	0.12%	0.02%
Service Charges on Deposits	0.15%	0.18%
Other[2]	0.24%	0.26%
Total Noninterest Income[2]	1.00%	0.62%

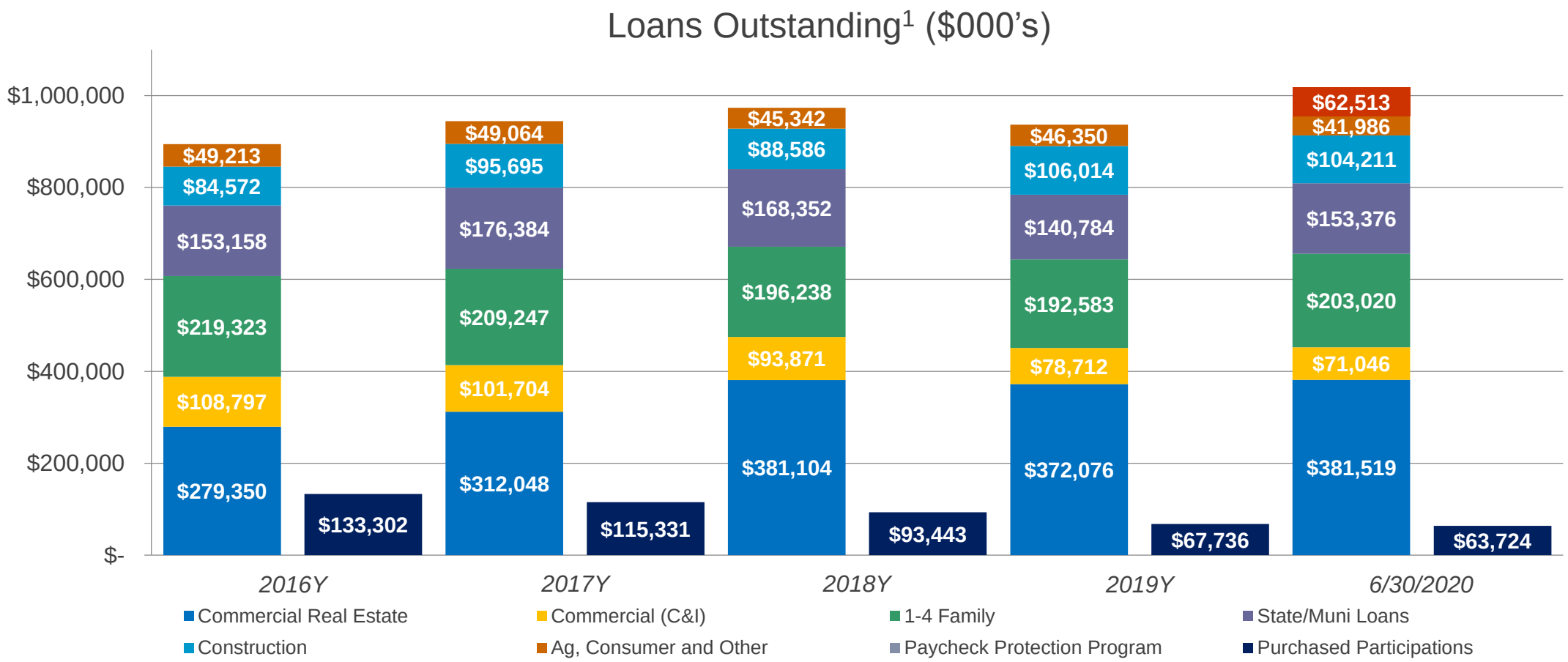
[1]PA Banks and Holding Companies with assets between $1-3 billion reporting for the last twelve months ended as of March 31, 2020; Source: S&P Global Market Intelligence; [2]Excludes gains on sales and life insurance

Stable, Low Cost Funding



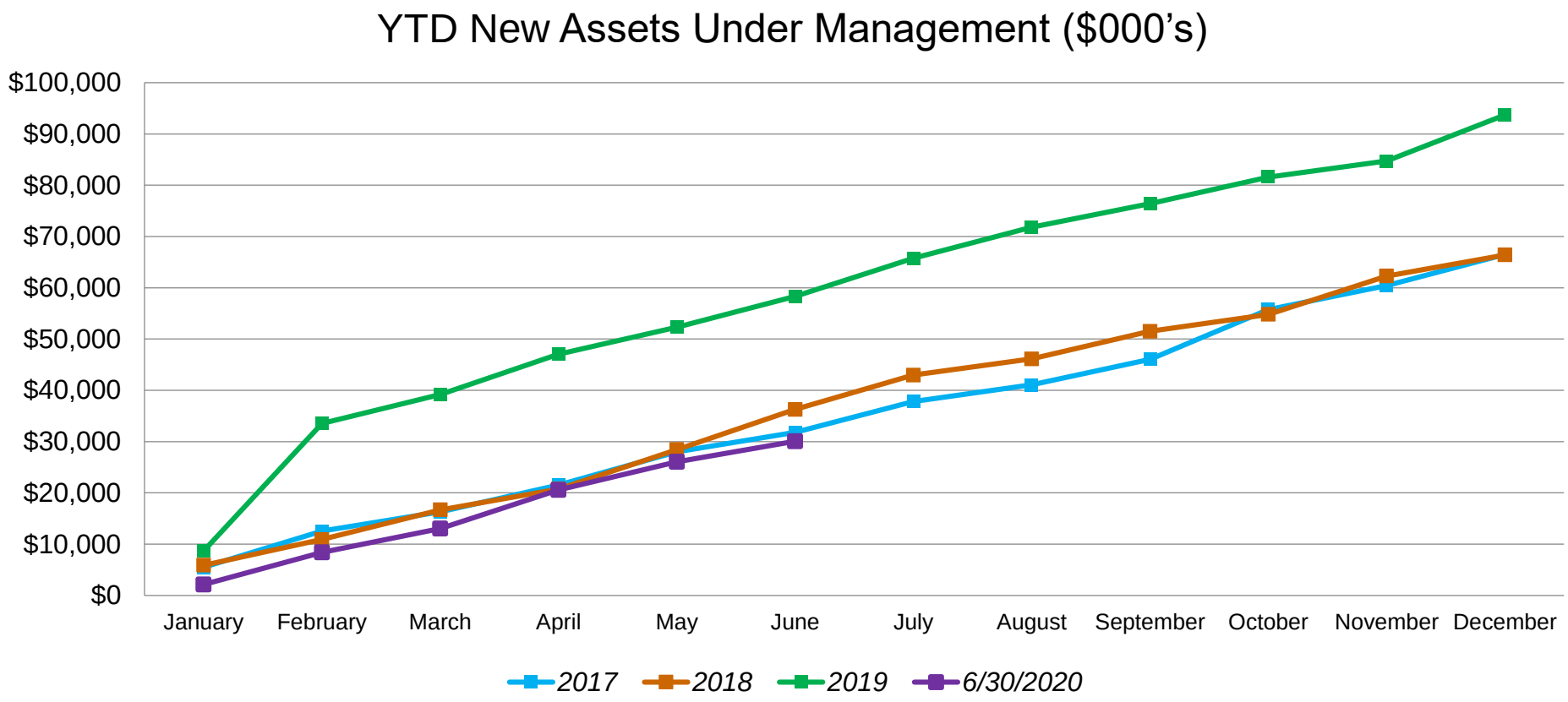


A Growing and Diversified Loan Portfolio



[1]Purchased participations are included as part of the loans outstanding

Investment and Trust Services



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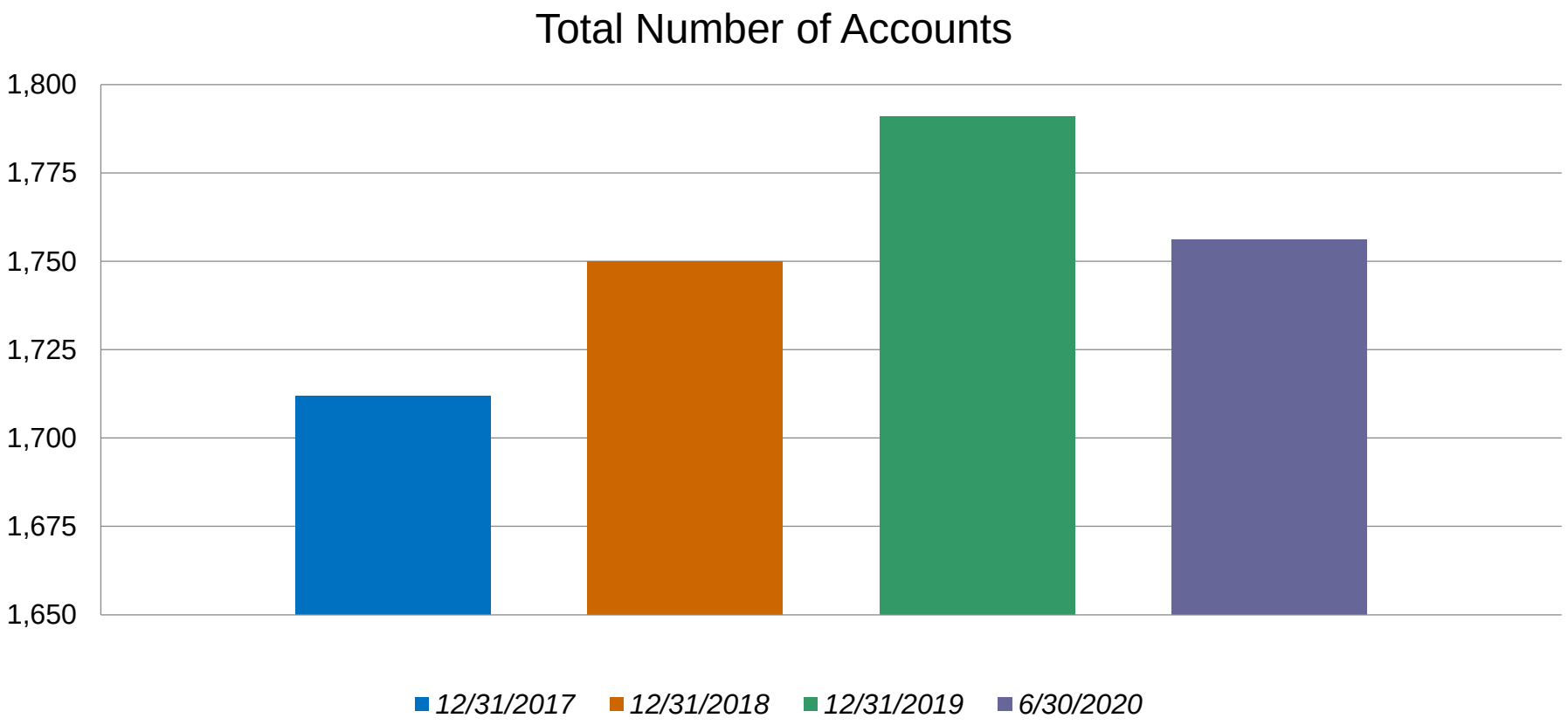

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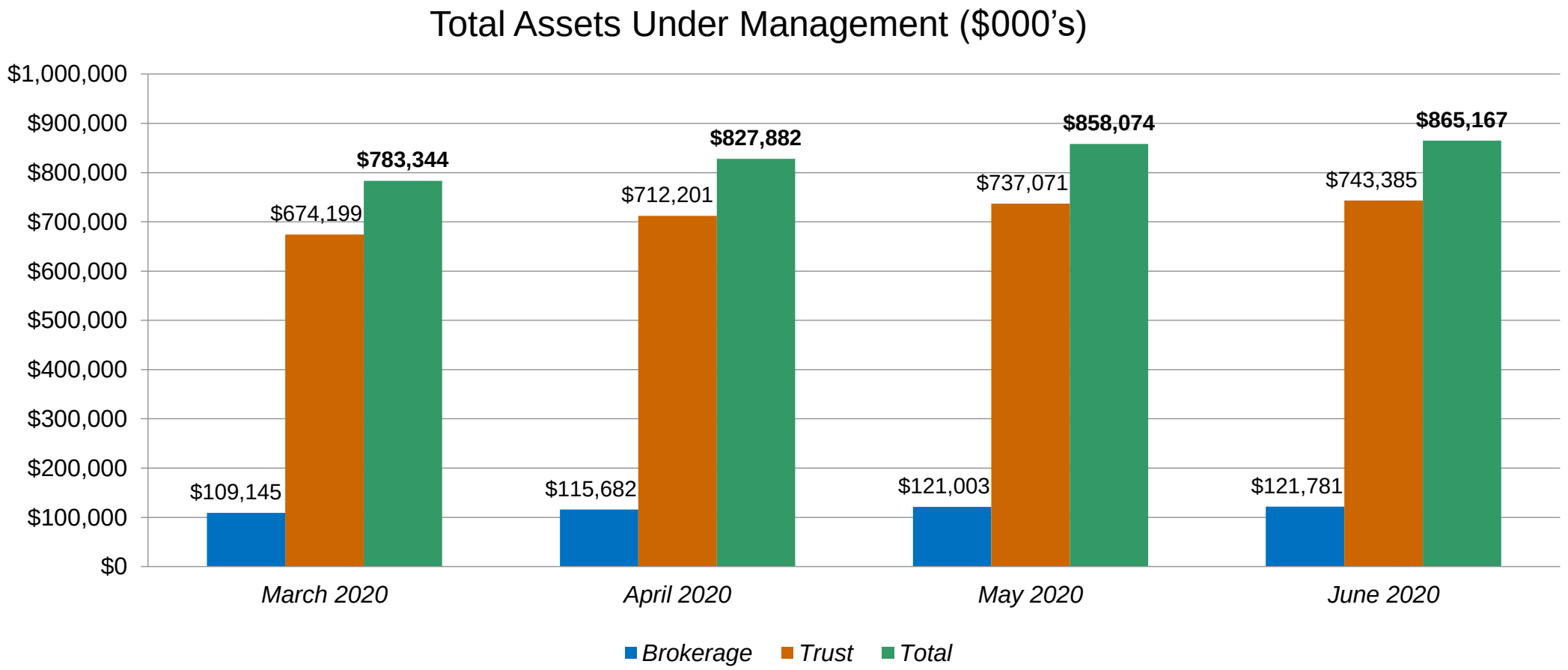
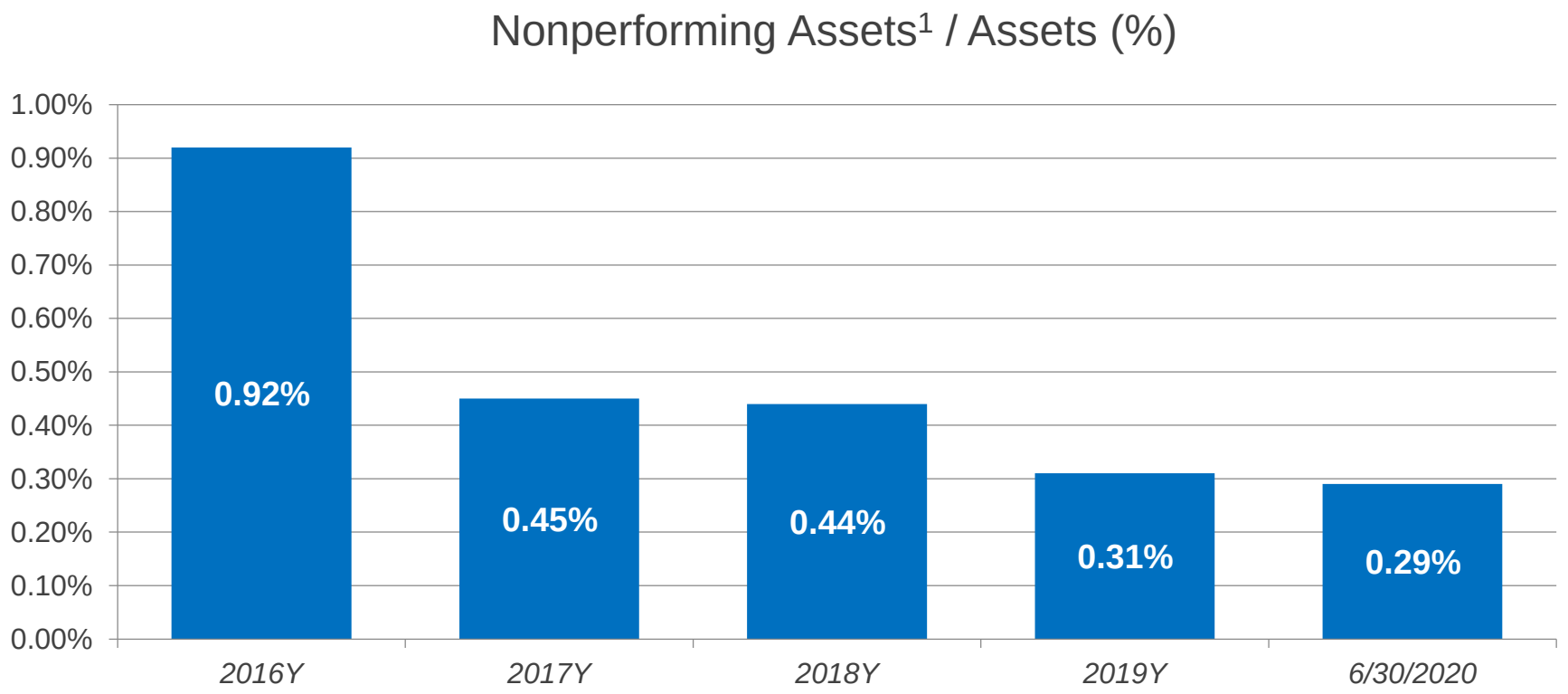


Strong Core Credit Quality



[1]Nonperforming assets = nonaccrual loans, loans 90 days past due and other real estate owned

Balance Sheet Highlights

Dollars in Thousands (000's)	2016Y	2017Y	2018Y	2019Y	6/30/2020
Total Assets	$1,127,443	$1,179,813	$1,209,587	$1,270,923	$1,423,111
Cash and Cash Equiv.	$36,665	$58,603	$52,957	$83,828	$58,599
Investments	$145,925	$127,336	$131,846	$187,873	$286,557
Net Loans[1]	$883,338	$932,350	$960,960	$922,609	$995,583
Deposits	$982,120	$1,047,181	$1,082,629	$1,125,392	$1,273,353
Shareholders' Equity	$116,493	$115,144	$118,396	$127,528	$134,840

[1]Includes $62.0 million Paycheck Protection Program loans at June 30, 2020

Income Statement Highlights

Dollars in Thousands (000's)	Quarter Ended 6/30/2019	Quarter Ended 3/31/2020	Quarter Ended 6/30/2020
Interest Income	$12,396	$11,665	$11,165
Interest Expense	$1,833	$1,413	$833
Provision for Losses	$0	$3,000	$1,975
Noninterest Income[1]	$3,454	$3,337	$3,385
Noninterest Expense	$9,606	$9,778	$9,644
Net Income	$3,984	$1,719	$3,067

[1]Excludes securities gains

Key Performance Measures

Percent (%)	Quarter Ended 6/30/2019	Quarter Ended 3/31/2020	Quarter Ended 6/30/2020
Return on Avg. Assets	1.28	0.54	0.89
Return on Avg. Equity	13.12	5.31	9.43
Efficiency Ratio	66.78	65.94	68.61
Net Interest Margin	3.74	3.53	3.26
Noninterest Inc[1] / Operating Revenue	21.80	22.24	22.49

[1]Excludes securities gains

Well-Positioned to Manage Uncertain Times

Percent (%)	Quarter Ended 6/30/2019	Quarter Ended 3/31/2020	Quarter Ended 6/30/2020
Risk-Based Capital Ratio (Total)	15.19	15.80	15.93
Leverage Ratio (Tier 1)	9.63	9.45	9.22
Common Equity Ratio (Tier 1)	13.93	14.53	14.66
Tangible Common Equity Ratio	9.24	9.58	9.18
Nonperforming Assets[1] / Total Assets	0.68	0.29	0.29
Allowance for Loan Loss as a % of Loans	1.28	1.57	1.64
Allowance to Nonperforming Loans	221.32	395.57	397.86

[1]Nonperforming assets = nonaccrual loans, loans 90-days past due and other real estate owned

Strong Dividend Yield

Per Share Measure / Market Valuation	Quarter Ended 6/30/2019	Quarter Ended 3/31/2020	Quarter Ended 6/30/2020
Diluted Earnings Per Share	$0.90	$0.39	$0.71
Cash Dividend Yield	3.14%	4.37%	4.63%
Regular Cash Dividends Paid	$0.30	$0.30	$0.30
Market Value (Per Share)	$38.24	$27.45	$25.90
Book Value	$28.21	$29.74	$30.98
Tangible Book Value[1]	$26.21	$27.66	$28.91
Market Cap ($M)	$167.60	$119.1	$112.70
Price / Book (%)	135.60%	92.3%	83.6%
Price / Tangible Book (%)	146.23%	99.2%	89.6%
Price / LTM EPS (X)	11.25	8.24	8.25

[1]See GAAP versus Non-GAAP reconciliation

GAAP / Non-GAAP Reconciliation

Tangible Book Value (per share) (non-GAAP)	6/30/2019	3/31/2020		6/30/2020
Shareholders' equity	123,914	129,005	$	134,840
Less intangible assets	(9,016)	(9,016)		(9,016)
Shareholders' equity (non-GAAP)	114,898	119,989		125,824
Shares outstanding (in thousands)	4,383	4,338		4,352
Tangible book value (non-GAAP)	26.21	27.66		28.91
Efficiency Ratio				
Noninterest expense	9,606	9,778	$	9,644
Net interest income	10,563	10,252		10,332
Plus tax equivalent adjustment to net interest income	368	300		340
Plus noninterest income, net of securities transactions	3,454	4,276		3,385
Total revenue	14,385	14,828		14,057
Efficiency Ratio (non-GAAP)	66.78%	65.94%		68.61%

Summary

- The Company is well capitalized which provides the ability to assist customers and communities through a challenging time
- Asset quality is good due to significantly lower dependence on participation loans though some deterioration can be expected as a result of effects of the pandemic
- Seasoned and experienced senior management team have previously worked through difficult economic conditions and have been actively positioning the bank to successfully navigate the current economic conditions
- Earnings performance leading into uncertain times allows for additional provision for loan losses
- Liquidity remains strong with resources available if needed

Thank You

Stock Symbol: **FRAF** (*Nasdaq*)

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