

FRANKLIN FINANCIAL SERVICES CORP /PA/  
Form DEF 14A  
March 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement  CONFIDENTIAL, FOR USE OF THE  
COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E) (2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

FRANKLIN FINANCIAL SERVICES CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i) (4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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Amount Previously Paid:

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Form, Schedule or Registration Statement No. :

(3)

Filing Party:

(4)

Date Filed:

FRANKLIN FINANCIAL SERVICES CORPORATION

20 South Main Street

P.O. Box 6010

Chambersburg, PA 17201-6010

(717) 264-6116

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD APRIL 24, 2012**

TO THE SHAREHOLDERS OF FRANKLIN FINANCIAL SERVICES CORPORATION:

Notice is hereby given that, pursuant to the call of its directors, the regular Annual Meeting of Shareholders of FRANKLIN FINANCIAL SERVICES CORPORATION, Chambersburg, Pennsylvania, will be held on Tuesday, April 24, 2012, at 10:30 A.M. at **The Orchards Restaurant, 1580 Orchard Drive, Chambersburg, Pennsylvania**, for the purpose of considering and voting upon the following matters:

1. **ELECTION OF DIRECTORS.** To elect the three nominees identified in the accompanying Proxy Statement as directors to Class C for the term specified.
2. **SAY-ON-PAY.** To provide a non-binding advisory vote approving the compensation paid to our named executive officers.
3. **RATIFICATION OF THE SELECTION OF AUDITORS.** To ratify the Audit Committee's selection of ParenteBeard LLC as Franklin Financial's independent registered public accounting firm for 2012.

4. OTHER BUSINESS. To consider other business, if any, as may properly be brought before the meeting and any adjournments thereof.

**Your Board of Directors recommends that you vote FOR the election as directors to Class C of the three nominees identified in the accompanying Proxy Statement; FOR approval of the compensation paid to our named executive officers; and FOR the ratification of the selection of ParenteBeard LLC as Franklin Financial's independent registered public accounting firm.**

Only those shareholders of record at the close of business on March 9, 2012, shall be entitled to notice of and to vote at the Annual Meeting.

Please mark, date and sign the enclosed Proxy and return it in the enclosed postage paid envelope as soon as possible, whether or not you plan to attend the meeting. You are cordially invited to attend the meeting and the luncheon to be held following the meeting. If you attend the meeting, you may withdraw your proxy and vote your shares in person.

A copy of the Annual Report of Franklin Financial Services Corporation is enclosed.

BY ORDER OF THE BOARD OF DIRECTORS

CATHERINE C. ANGLE  
Secretary

Enclosures  
March 27, 2012

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## GENERAL INFORMATION

### Date, Time, and Place of Meeting

The Annual Meeting of the shareholders of Franklin Financial Services Corporation (hereinafter, "Franklin Financial" or the "Company") will be held on Tuesday, April 24, 2012, at 10:30 a.m. at **The Orchards Restaurant, 1580 Orchard Drive, Chambersburg, Pennsylvania.**

### Shareholders Entitled to Vote

Shareholders of record at the close of business on March 9, 2012, are entitled to notice of and to vote at the meeting.

### Purpose of Meeting

Shareholders will be asked to consider and vote upon the following matters at the Annual Meeting; (i) the election of three (3) directors to Class C; (ii) to provide a non-binding advisory vote approving the compensation paid to our named executive officers as disclosed in this proxy statement ("Say-On-Pay"); (iii) to ratify the Audit Committee's selection of ParenteBeard LLC as Franklin Financial's independent registered public accounting firm for 2012; and (iv) such other business as may be properly brought before the meeting and any adjournments thereof.

### Solicitation of Proxies

This Proxy Statement is furnished in connection with the solicitation of proxies, in the accompanying form, by the Board of Directors of Franklin Financial for use at the Annual Meeting and any adjournments thereof.

The expense of soliciting proxies will be borne by Franklin Financial. In addition to the use of the mails and the Internet, the directors, officers, and employees of Franklin Financial and of any subsidiary may, without additional compensation, solicit proxies personally or by telephone.



Farmers and Merchants Trust Company of Chambersburg (hereinafter, "F&M Trust") is a wholly owned subsidiary of Franklin Financial. This Proxy Statement, while prepared in connection with the Annual Meeting of Shareholders of Franklin Financial, contains certain information relating to F&M Trust which will be identified where appropriate.

### **Revocability and Voting of Proxies**

The execution and return of the enclosed proxy will not affect a shareholder's right to attend the meeting and to vote in person. Any proxy given pursuant to this solicitation may be revoked by delivering written notice of revocation to Catherine C. Angle, Secretary of Franklin Financial, at any time before the proxy is voted at the meeting. Unless revoked, any proxy given pursuant to this solicitation will be voted at the meeting in accordance with the instructions thereon of the shareholder giving the proxy. In the absence of instructions, all proxies will be voted FOR the election of the three nominees identified in this Proxy Statement as directors to Class C; FOR approval of the compensation paid to our named executive officers as disclosed in this proxy statement; and FOR the ratification of the Audit Committee's selection of ParenteBeard LLC as the company's independent registered public accounting firm for 2012. The enclosed proxy confers upon the persons named as proxies therein discretionary authority to vote the shares represented thereby on all matters that may come before the meeting in addition to the scheduled items of business, including unscheduled shareholder proposals and matters incident to the conduct of the meeting. Although the Board of Directors knows of no other business to be presented, in the event that any other matters are brought before the meeting, the shares represented by any proxy given pursuant to this solicitation will be voted in accordance with the recommendations of the Board of Directors of Franklin Financial.

Shares held for the account of shareholders who participate in the Dividend Reinvestment Plan will be voted in accordance with the instructions of each shareholder as set forth in his proxy. If a shareholder who participates in the Dividend Reinvestment Plan does not return a proxy, the shares held for his account under the Dividend Reinvestment Plan will not be voted.

### **Voting of Shares and Principal Holders Thereof**

At the close of business on December 31, 2011, Franklin Financial had issued and outstanding 4,023,084 shares of common stock; there is no other class of stock outstanding.

A majority of the outstanding shares of common stock present in person or by proxy will constitute a quorum for the conduct of business at the Annual Meeting. Each share is entitled to one vote on all matters submitted to a vote of the shareholders. In the case of the election of directors, the three candidates receiving the highest number of votes shall be elected directors of Franklin Financial. Accordingly, in the absence of a contested election, votes withheld from a particular nominee or nominees, abstentions and broker non-votes will not influence the outcome of the election. A majority of the votes cast by shareholders present in person or by proxy and entitled to vote at a meeting at which a quorum is present is required to approve each of the other proposals. Abstentions and broker non-votes will not be treated as votes cast and, therefore, will have no effect on whether or not a proposal is approved.

To the knowledge of Franklin Financial, no person owned of record or beneficially on December 31, 2011 more than five percent of the outstanding shares of common stock of Franklin Financial.

### **Shares Held in Street Name**

If your shares are held in "street name" by your bank or broker or other intermediary, you will receive voting instructions from your intermediary which you must follow in order for your shares to be voted in accordance with your directions. Many intermediaries permit their clients to vote via the internet or by telephone. Whether or not internet or telephone voting is available, you may vote your shares by returning the voting instruction card which you will receive from your intermediary.

### **Shareholder Proposals**

Pursuant to Rule 14a-8 promulgated by the Securities and Exchange Commission (hereafter, the "SEC") and Section 2.4 of the Bylaws of Franklin Financial, shareholder proposals intended to be presented at the 2013 Annual Meeting of the shareholders of Franklin Financial must be received at the executive offices of Franklin Financial no later than November 27, 2012, in order to be eligible for inclusion in the proxy statement and proxy form to be prepared by Franklin Financial in connection with the 2013 Annual Meeting. A shareholder proposal which does not satisfy the notice and other requirements of SEC Rule 14a-8 and the Bylaws of Franklin Financial is not required to be included in Franklin Financial's proxy statement and proxy form and may not be presented at the 2013 Annual Meeting. All shareholder proposals should be sent to: Franklin Financial Services Corporation, Attention: President, 20 South Main Street, P.O. Box 6010, Chambersburg, Pennsylvania 17201-6010.

**Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting to Be Held on April 24, 2012.**

The Proxy Statement and the 2011 Annual Report to Shareholders are available at:

<http://www.sn1.com/IRWebLinkX/GenPage.aspx?IID=100736&gKp=203121>

## **Recommendations of the Board of Directors**

The Board of Directors recommends that the shareholders vote FOR the election as directors to Class C of the three nominees identified in this Proxy Statement.

The Board of Directors recommends that the shareholders vote FOR approval of the compensation paid to our named executive officers as disclosed in this proxy statement.

The Board of Directors recommends that the shareholders vote FOR the ratification of the Audit Committee's selection of ParenteBeard LLC as Franklin Financial's independent registered public accounting firm for 2012.

## **INFORMATION CONCERNING CORPORATE GOVERNANCE POLICIES, PRACTICES AND PROCEDURES**

Franklin Financial is and always has been committed to the highest ideals in the conduct of its business and to observing sound corporate governance policies, practices and procedures.

In order to comply with the requirements of the Sarbanes-Oxley Act and related SEC rules and regulations, Franklin Financial has taken a number of actions which are intended to strengthen and improve its commitment to sound corporate governance. These actions include the following:

- The Board of Directors has adopted formal Corporate Governance Guidelines, a copy of which is posted on Franklin Financial's website at [www.franklinfin.com](http://www.franklinfin.com).

- The Board of Directors has adopted a Supplemental Code of Business Ethics and Conduct for Directors and Executive Officers that focuses on issues of ethical business conduct relating to conflicts of interest, which is posted on Franklin Financial's website at [www.franklinfin.com](http://www.franklinfin.com).

· The Board of Directors has adopted a Code of Ethics Applicable to Senior Executives addressing the integrity of Franklin Financial's periodic reports filed with the Securities and Exchange Commission and other public communications, and compliance with all applicable governmental rules and regulations, as required by the Sarbanes-Oxley Act and related SEC rules and regulations, which is posted on Franklin Financial's website at [www.franklinfin.com](http://www.franklinfin.com).

· The Board of Directors has adopted written charters for its Audit, Personnel and Nominating Committees, copies of which are posted on Franklin Financial's website at [www.franklinfin.com](http://www.franklinfin.com).

· Pursuant to the terms of its Corporate Governance Guidelines, Franklin Financial's "independent directors" meet at least quarterly in executive session (i.e., without the presence of the Chief Executive Officer or other members of Franklin Financial's management).

## **INFORMATION CONCERNING THE ELECTION OF DIRECTORS**

### **General Information**

The Bylaws of Franklin Financial provide that the Board of Directors shall consist of not less than 5 nor more than 25 persons and that the directors shall be classified with respect to the time they shall severally hold office by dividing them into three classes, each consisting as nearly as possible of one-third of the number of the whole Board of Directors. The Bylaws further provide that the directors of each class shall be elected for a term of three years so that the term of office of one class of directors shall expire in each year. Finally, the Bylaws provide that the number of directors in each class of directors shall be determined by the Board of Directors.

A majority of the Board of Directors may increase the number of directors between meetings of shareholders. Any vacancy occurring in the Board of Directors, whether due to an increase in the number of directors, resignation, retirement, death, or any other reason, may be filled by appointment by the remaining directors. Any director who is appointed to fill a vacancy shall hold office until his successor is duly elected by the shareholders at the next Annual Meeting at which directors in his class are elected.

The Board of Directors has determined that the Board shall consist of 11 directors. There are 3 directors whose terms of office will expire at the 2012 Annual Meeting and 8 continuing directors whose terms of office will expire at the 2013 or 2014 Annual Meeting. The Board of Directors has nominated the following persons for election to the Board of Directors at the 2012 Annual Meeting for the term specified below:

CLASS C

For a Term of Three Years

Daniel J. Fisher

Donald A. Fry

Donald H. Mowery

In the event that any of the foregoing nominees is unable to accept nomination or election, the shares represented by any proxy given pursuant to this solicitation will be voted in favor of such other persons as the Board of Directors of Franklin Financial may recommend. However, the Board of Directors has no reason to believe that any of its nominees will be unable to accept nomination or to serve as a director if elected.

**Nominations for Election of Directors**

In accordance with Section 3.5 of the Bylaws of Franklin Financial, any shareholder of record entitled to vote for the election of directors who is a shareholder on the record date and on the date of the meeting at which directors are to be elected may nominate a candidate for election to the Board of Directors, provided that the shareholder has given proper written notice of the nomination, which notice must contain certain prescribed information and must be delivered to the President of Franklin Financial not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting. The Chairman of the meeting must determine whether a nomination has been made in accordance with the requirements of the Bylaws and, if he determines that a nomination is defective, such nomination and any votes cast for the nominee shall be disregarded.

Shareholders may also recommend qualified persons for consideration by the Nominating Committee to be included in Franklin Financial's proxy materials as a nominee of the Board of Directors. A shareholder who wishes to make such a recommendation must submit his recommendation in writing addressed to the Chairman of the Board, Franklin Financial Services Corporation, P.O. Box 6010, Chambersburg, Pennsylvania 17201-6010. The recommendation must include the proposed nominee's name and qualifications and must be delivered not less than 120 days prior to the anniversary date of the immediately preceding annual meeting.

### **Nominating Committee Process for the Selection and Evaluation of Nominees**

Franklin Financial's Corporate Governance Guidelines identify the qualifications expected of a member of the Board of Directors and set forth the criteria to be applied by the Nominating Committee in evaluating candidates who will be recommended to the Board of Directors as nominees for election to the Board. A candidate must possess good business judgment and must be free of any relationship which would compromise his ability to properly perform his duties as a director. A candidate must have sufficient financial background and experience to be able to read and understand financial statements and to evaluate financial performance. A candidate should have proven leadership skills and management experience and should be actively involved in the community served by Franklin Financial and its subsidiaries. A candidate must be willing and able to commit the time and attention necessary to actively participate in Board affairs. In addition,

a candidate must be a person of integrity and sound character. Although the Nominating Committee does not have a policy with regard to considering diversity in identifying nominees for director, the Nominating Committee does consider whether a candidate's age, background, skills and experience will compliment or supplement those of other members of the Board of Directors in order to achieve an appropriate balance and diversity of such qualities and characteristics.

The Nominating Committee uses a variety of methods for identifying and evaluating potential nominees for election to the Board of Directors. The Nominating Committee regularly assesses the appropriate size of the Board and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that a vacancy is anticipated or otherwise arises, the Nominating Committee typically considers and interviews several potential candidates for appointment to fill the vacancy. Candidates may come to the attention of the Nominating Committee through current Board members, shareholders and other persons. These candidates are evaluated by the Nominating Committee and may be considered at any time during the year. In evaluating potential nominees, the Nominating Committee seeks to achieve a balance of knowledge, skills and experience on the Board. The Nominating Committee does not engage third party consultants in connection with the identification or evaluation of potential nominees.

The Nominating Committee will consider persons recommended by shareholders as potential nominees for election to the Board of Directors, provided that recommendations are made in accordance with the procedures described above under the caption "Nominations for Election of Directors." A potential nominee who is recommended by a shareholder will be evaluated by the Nominating Committee in the same fashion as other persons who are considered by the Committee as potential candidates for election to the Board of Directors.

### **Director Independence**

The Board of Directors has determined that each of the following directors is an "independent director," as such term is defined in the NASDAQ Stock Market Rules: Charles S. Bender, II, Martin R. Brown, G. Warren Elliott, Daniel J. Fisher, Donald A. Fry, Allan E. Jennings, Jr., Stanley J. Kerlin, Donald H. Mowery, Stephen E. Patterson, and Martha B. Walker.

### **Information about Nominees, Continuing Directors and Executive Officers**

Information concerning the three persons nominated for election to Class C of the Board of Directors of Franklin Financial at the 2012 Annual Meeting and concerning the eight continuing directors follows.

#### **CLASS A DIRECTORS (Term expires 2014)**

##### **G. Warren Elliott**

Age: 57



Year Became Director: 1991

Vice Chairman of the Board since 2010

Chairman of the Board since 2012

Committees: ALCO, Audit, Credit Risk Oversight, Executive (Chair), Nominating (Chair), and Personnel (Chair)

Mr. Elliott graduated with honors with a B.A. in Public Administration and an M.S. in Public Administration from Shippensburg University in 1976 and 1977 respectively. He is a Distinguished Alumnus from Shippensburg University and a Distinguished Alumnus and Centennial Fellow from Penn State Mont Alto.

Mr. Elliott is currently President of Cardinal Crossings, Inc. and CCI Properties, LLC, municipal government consulting and real estate investment firms. From 1991 to 1995 he served as an adjunct faculty member at Shippensburg University teaching state and local government. Mr. Elliott also served Franklin County as a Commissioner in 1987 and from 1996–2007. As a Commissioner, he served as Chairman of the Board. Mr. Elliott has received numerous civic awards with the most recent FCADC – Zane Miller Award received in 2010. Mr. Elliott has served and continues to serve on the Boards of numerous organizations within this Company’s trade area. He also serves as a Pennsylvania Fish and Boat Commissioner, and he is a member of the Chesapeake Bay Commission and the Mid-Atlantic Fisheries Management Council.

The Board values the considerable knowledge relative to the county and local government that Mr. Elliott provides. His knowledge of business and sales provides valuable insight to the growth of the Company. As a Commissioner, Mr. Elliott was responsible for a considerable number of employees and agencies with the County. Mr. Elliott is a well-known and respected member of the community and the market area served by the Company.

**Stanley J. Kerlin**

Age: 58

Year Became Director: 2006

Committees: ALCO, Credit Risk Oversight and Trust

Mr. Kerlin graduated Cum Laude with a B.A. Degree in History from Elizabethtown College in 1976 and a J.D. Degree from Dickinson School of Law in 1979.

Mr. Kerlin has engaged in the active practice of law for 30 years and has owned and operated his own law practice as both a partner and a sole practitioner. Mr. Kerlin continues to be active in his church and in several community and political organizations within this Company's trade area.

Mr. Kerlin's knowledge of business and management provide valuable insight to the Board, and the Directors value Mr. Kerlin's legal expertise. Mr. Kerlin is a respected member of his community and the market that he represents.

**William E. Snell, Jr.**

Age: 63

Year Became Director: 1995

Mr. Snell has served as the President and Chief Executive Officer since joining the Company in 1995. He graduated Cum Laude with a Bachelor of Arts Degree from Dickinson College in 1969 and a Master of Business Administration Degree from Tulane University Graduate School of Business Administration in 1971.

Mr. Snell's banking career has spanned over 40 years where he has worked in numerous positions and departments with direct responsibility for building revenues and profits beginning with Meridian Bank in 1971. Throughout his career, Mr. Snell has played a significant role in all areas of bank business. Mr. Snell has served and continues to serve on a number of Boards and organizations in the Company's trade area. In 2002, Mr. Snell was awarded the Chambersburg Chamber of Commerce's "Business Person of the Year" Award.

The Pennsylvania Banking Code requires that a bank president be a member of the bank's board of directors. In addition, the Board believes that it is important that the President, who also is the Chief Executive Officer, serve as a Director so that the President may interact with his fellow directors on a peer to peer basis. In addition, Mr. Snell's breadth of experience, tenure, and strong leadership ethics provide unparalleled insights into the history, current operation, and strategic vision of F&M Trust and Franklin Financial. Mr. Snell is a respected member of the community and a respected leader for the Company's 290 employees.

**Martha B. Walker**

Age: 65

Year Became Director: 1979

Committees: Credit Risk Oversight (Chair), Executive, Nominating, and Trust

Ms. Walker graduated from the Dickinson School of Law in 1972 with a Juris Doctor degree.

She has served as a practicing attorney for 38 years handling domestic relations, estate administration, real estate transactions, small business and estate planning and has been a managing partner for law firms for over 30 years. Ms. Walker currently is a partner in the law firm of Walker, Connor and Spang, LLC. Previously, she worked as a partner in the firm of Barley, Snyder, Senft & Cohen, LLC from 1998 to 2006. Ms. Walker has also worked as an Assistant Professor for Wilson College and Penn State Mont Alto. She has been a business owner and director of Baum Publishing Company, Inc., a weekly newspaper in Bucks County, Pennsylvania, for 15 years. Ms. Walker has been the Chairman or President of numerous non-profit organizations and continues to serve on the Boards of a number of organizations in this Company's trade area. Numerous honors and awards include being the first woman member of the Franklin County Bar Association, first woman President of the Franklin County Bar Association, and first woman in Franklin County named to a local bank Board of Directors.

Ms. Walker's wide range of knowledge has been a valuable asset to the Company. Her tenure on the Board speaks to a high level of dedication to the Company, shareholders, and employees. Ms. Walker's business and management abilities have contributed to the continued growth of the Company, and the Directors value Ms. Walker's legal expertise. Ms. Walker is well known in the community and is a valuable member of the many organizations where she serves.

**CLASS B DIRECTORS (Term expires 2013)**

**Charles S. Bender, II**

Age: 67

Year Became Director: 1981

Committees: Executive, ALCO, Audit (Chair), Credit Risk Oversight, Executive, and Nominating

Mr. Bender graduated with a BA degree in Economics from Susquehanna University in 1967.

From 1967 to 1974 he was employed as an FDIC Bank Examiner. Mr. Bender was employed by F&M Trust/Franklin Financial from 1975 until his retirement in 2002. He worked in a variety of positions and departments within the Company from Manager of the Loan Portfolio to Executive Vice President of F&M Trust and Franklin Financial at the time of his retirement. Mr. Bender currently serves on the Boards of non-profit organizations within this Company's trade area.

Our Board values the extensive banking and regulatory experience Mr. Bender brings to the Company. His knowledge of loan and financial and accounting issues is a valuable asset to the Company. Mr. Bender's participation on the boards of local organizations provides him with considerable knowledge of the market areas served by the Company. As a life-long resident of this area, Mr. Bender is a respected member of the community and provides positive exposure for the Company.

**Martin R. Brown**

Age: 60

Year Became Director: 2006

Committees: Audit, Personnel, and Trust

Mr. Brown graduated with honors from the Pittsburgh Institute of Mortuary Science in 1973.

He is a licensed Pennsylvania Funeral Director who operates three family owned funeral homes within this Company's trade area. Additionally, Mr. Brown is President of M.R. Brown Management, Inc. where he is the managing general partner of Marymart Family LP, which owns Sandy Ridge Station Mall. Along with his wife, Mr. Brown is the owner of the Sandy Ridge Market which is a full service grocery store located at the Sandy Ridge Station Mall. Mr. Brown oversees a number of individuals that are employed by his companies on a daily basis. Mr. Brown has served and continues to serve on the Boards of numerous organizations within the Company's trade area.

Mr. Brown's entrepreneurial background and business management expertise provide our Board with important qualities and insights. His participation as a director on numerous Boards in the market area Mr. Brown represents, provides the Company with considerable insight and positive exposure. Mr. Brown is a respected member of his community and the market area that he represents.

**Allan E. Jennings, Jr.**

Age: 62

Year Became Director: 2002

Committees: ALCO, Audit, Personnel, and Credit Risk Oversight

Mr. Jennings graduated with honors from Lehigh University in 1971 with a B.S. in Industrial Engineering.

He has been President and COO of Jennings Chevrolet Oldsmobile Cadillac, Inc. (dba Jennings Chevrolet Buick GMC) for the past 25 years. This corporation has been a market leader throughout Mr. Jennings' ownership. Mr. Jennings is a current director and past Chairman of the Pennsylvania Automotive Association. In this position Mr. Jennings has gained additional leadership experience and knowledge of the automotive industry in Pennsylvania.

Mr. Jennings' entrepreneurial background and management expertise provide the Board with considerable knowledge and insight. His knowledge of sales and marketing are valuable to the continued growth of the Company. Mr. Jennings oversees a large number of employees on a daily basis. His participation on a number of local boards provides valuable information relative to the market area that he represents. A life-long resident of the area, Mr. Jennings is well respected within the community and provides positive exposure for the Company.

**Stephen E. Patterson**

Age: 67

Year Became Director: 1998

Committees: ALCO, Executive, Nominating, and Trust

Mr. Patterson graduated from both Gettysburg College and Wake Forest University School of Law.

He is a practicing attorney with over 40 years of experience in the areas of business law, real estate, and estate planning and administration. From 2005 until 2008 Mr. Patterson was a shareholder and practicing attorney in the law firm of Patterson & Kiersz, P.C. Effective in September of 2008, Mr. Patterson became a principal and practicing attorney in the law office of Salzmans Hughes, P.C. Additionally from 2005 through December 2009, he was a shareholder and officer in Antietam Abstract Company, a licensed title insurance agency. Mr. Patterson has served and continues to serve on the Boards of numerous organizations within the Company's trade area.

Mr. Patterson's knowledge of business and management provide valuable insight to the Board, and the Directors value Mr. Patterson's legal expertise. Mr. Patterson is a respected member of his community and provides positive exposure for the Company in the market that he represents.

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**CLASS C DIRECTORS (Term expires 2015)**

**Daniel J. Fisher**

Age: 55

Year Became Director: 2010

Committees: ALCO, Audit, and Personnel

Mr. Fisher graduated from Muhlenberg College with a B.A. in Business Administration in 1978 and from Lehigh University with a MS in Management Science in 1986.

Mr. Fisher's career in manufacturing has spanned over a 32-year period. He has served as President and CEO of D. L. Martin Company since 1998 and oversees a number of employees on a daily basis. Mr. Fisher is very active in his community and the market area that he represents. He has served and continues to serve on a number of Boards in the Company's trade area. As a respected member of his community, Mr. Fisher provides positive exposure for the Company in the market that he represents.

Mr. Fisher's knowledge of business and management provide valuable insight to the Board. Mr. Fisher's manufacturing background brings a new dimension to the Board.

**Donald A. Fry**

Age: 62

Year Became Director: 1998

Committees: Executive Personnel, and Trust (Chair)

Mr. Fry graduated from Waynesburg University in 1973 with a B.A. in Accounting and Economics.

Mr. Fry currently serves as Chairman of the Board of ANDOCO, Inc. which trades as Cumberland Valley Rental. Although retired from the day-to-day operations, Mr. Fry continues to be active in the company. He has served and



continues to serve on the Boards of numerous organizations within this Company's trade area.

Mr. Fry's entrepreneurial and business expertise provide our Board with important qualities and insights. His accounting background is a valuable asset to the Board. As a life-long resident of the area, Mr. Fry is well known and respected in his community and provides positive exposure for the Company in the market area that he represents.

**Donald H. Mowery**

Age: 60

Year Became Director: 2010

Committees: Audit, Credit Risk Oversight, and Nominating

Mr. Mowery received a B.S. in Civil Engineering in 1974 from Drexel University. His advanced level studies have included Engineering and Construction Management from The Pennsylvania State University.

Mr. Mowery has served as President of R. S. Mowery & Sons, Inc. since 1984. His career in the construction business spans over a 43-year period beginning as a summer employment laborer in 1968 and advancing up through the company over the years. Mr. Mowery oversees a number of employees and job sites on a daily basis. He has served and continues to serve on a number of Boards in the Company's trade area.

Mr. Mowery's business and leadership expertise provide our Board with extensive qualities and insights. As a life-long resident of the area, Mr. Mowery is well known and a respected member of the community, which provides positive exposure for the Company in the market area that he represents. As one of the newer Directors, Mr. Mowery's construction background brings a new dimension to the Board.

The following table includes information concerning shares of Franklin Financial common stock owned beneficially by directors, nominees, and executive officers who are named in the Summary Compensation Table appearing elsewhere in this Proxy Statement and by all directors and executive officers as a group. There are no family relationships between or among any of the Company's executive officers, directors or nominees.

Name	Shares of Stock of Franklin Percentage of	
	Total Beneficially Owned as of 12/31/11 (1)	Outstanding Shares as of 12/31/11 (2)
Charles S. Bender, II	70,190 (3)	1.75 %
Martin R. Brown	5,400	
Ronald L. Cekovich	12,998 (4)	
G. Warren Elliott	3,464	
Daniel J. Fisher	3,737	
Donald A. Fry	5,581	
Mark R. Hollar	9,807 (5)	
Allan E. Jennings, Jr.	9,547 (6)	
Stanley J. Kerlin	27,185 (7)	
Michael E. Kugler	12,588 (8)	
Donald H. Mowery	4,941	
Stephen E. Patterson	4,000	
William E. Snell, Jr.	45,944 (9)	1.15 %
Martha B. Walker	4,167	
All Directors and Executive Officers as a group (14 Persons)	219,549	5.46 %

Beneficial ownership of shares of the common stock of Franklin Financial is determined in accordance with SEC Rule 13d-3, which provides that a person shall be deemed to own any stock with respect to which he, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote or to direct the voting of the stock, or (ii) investment power, which includes the power to dispose or to direct the disposition of the stock. A person is also deemed to own any stock (1) which he has the right to acquire within 60 days through the exercise of an option or conversion right, through the revocation of a trust or similar arrangement, or otherwise. Unless otherwise stated, each director and executive officer has sole voting and investment power with respect to the shares shown above or holds the shares jointly with his or her spouse. Unless otherwise stated, the number of shares shown represents less than one percent of the total number of shares of common stock outstanding.

(2) Less than 1% unless otherwise indicated.

(3) Includes 26,250 shares held in the name of Mr. Bender's spouse.

(4) Includes options issued under the Incentive Stock Option Plan to purchase 11,805 shares and options issued under the Employee Stock Purchase Plan to purchase 322 shares.

(5) Includes options issued under the Incentive Stock Option Plan to purchase 7,775 shares; options issued under the Employee Stock Purchase Plan to purchase 406 shares; and, 520 shares held by Mr. Hollar as

custodian under Uniform Gift to Minors Act accounts for the benefit of his children.

(6) Includes 6,282 shares held in the name of Mr. Jennings' spouse.

(7) Includes 400 shares held in the names of Mr. Kerlin's children; 3,010 shares held by Mr. Kerlin as co-trustee of the Kerlin Family Trust; and 21,158 shares with respect to which Mr. Kerlin holds power of attorney.

(8) Includes options issued under the Incentive Stock Option Plan to purchase 7,675 shares; options issued under the Employee Stock Purchase Plan to purchase 346 shares; and 1,500 shares held in the name of Mr. Kugler's spouse.

(9) Includes options issued under the Incentive Stock Option Plan to purchase 19,062 shares and options issued under the Employee Stock Purchase Plan to purchase 691 shares.

### **Meetings of the Board of Directors**

Franklin Financial's Corporate Governance Guidelines provide that directors are expected to attend meetings of the Board of Directors, meetings of the committees on which they serve, and the annual meeting of shareholders. The Boards of Directors of the Company and of F&M Trust met a total of 35 times during 2011. All directors attended 75% or more of the aggregate number of meetings of the Boards of Directors and of the various committees of the Boards of Directors on which they served, and all directors attended the annual meeting of shareholders in 2011.

The following table provides certain summary information concerning the total compensation paid or accrued by Franklin Financial and F&M Trust in 2011 to each non-employee member of the Board of Directors.

## 2011 DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash		Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings		All Other Compensation	Total
	(a)	(b)				(e)	(f)		
Charles S. Bender, II	24,600	-	-	-	-	-	23,102	(3)	47,702
Martin R. Brown	29,400	-	-	-	-	-	1,499	(4)	30,899
G. Warren Elliott	36,200	-	-	-	-	-	-		36,200
Daniel J. Fisher	26,200	-	-	-	-	-	-		26,200
Donald L. Fry	29,400	-	-	-	-	-	-		29,400
Allan E. Jennings, Jr.	27,800	-	-	-	-	-	-		27,800
Stanley J. Kerlin	27,400	-	-	-	-	-	-		27,400
Donald H. Mowery	24,200	-	-	-	-	-	-		24,200
Stephen E. Patterson	27,400	-	-	-	-	-	-		27,400
Charles M. Sioberg	44,288	-	-	-	-	-	15,480	(5)(7)	59,768
Martha B. Walker	27,800	-	-	-	-	-	4,500	(6)	32,300

(1) The amount reported is the aggregate dollar value of all fees earned (even if deferred) or paid in cash for services as a director in 2011, including annual retainer fees, committee and/or chairmanship fees and meeting fees.

(2) The amount reported is the aggregate dollar value of total compensation earned in 2011 and is equal to the sum of the amounts reported in columns (a) through (f).

(3) The amount reported includes the annual premium or \$3,794 paid by Franklin Financial on a split-dollar life insurance policy maintained for the benefit of the director and \$19,308 accrued in 2011 under a deferred compensation arrangement known as the Brick Plan in effect from 1982 through 1988.

(4) The amount reported includes the annual premium paid by Franklin Financial on a split-dollar life insurance policy maintained for the benefit of the director.

(5) The amount reported is the benefit paid during 2011 under a deferred compensation arrangement known as the Brick Plan in effect from 1982 through 1988.

(6) The amount reported includes amounts accrued in 2011 under a deferred compensation arrangement known as the Brick Plan in effect from 1982 through 1988.

(7)

Retired December 31, 2011.

Each director of Franklin Financial who is not a salaried officer of Franklin Financial or F&M Trust was paid by Franklin Financial an annual retainer fee of \$7,752 and a fee of \$400 for each committee meeting attended. Each director of Franklin Financial is also a director of F&M Trust. Each Director of F&M Trust who is not a salaried

officer of Franklin Financial or F&M Trust was paid by F&M Trust an annual retainer fee of \$13,230 and a fee of \$400 for each committee meeting attended. In addition to the foregoing annual retainer fees and meeting attendance fees, the Chairman of the Audit Committee received an annual retainer fee of \$4,500. The Chairman of the Board received an additional annual retainer fee of \$17,692.

Director fees payable by F&M Trust are eligible to be deferred pursuant to the Farmers and Merchants Trust Company of Chambersburg Directors' Deferred Compensation Plan (the "Director Deferred Compensation Plan"). Participation in the Director Deferred Compensation Plan is voluntary and each participant may elect each year to defer all or a portion of their F&M Trust director's fees. Each participant directs the investment of their own account among various publicly available mutual funds designated by the Bank's Investment and Trust Services department. Growth of each participant's account is a result of investment performance and is not the result of an interest factor or interest formula established by the participant or the Bank. The balance in such director's deferred benefit account is payable to him or to his designated beneficiary in a lump sum within 60 days upon the first to occur of his retirement from the Board or death, except that F&M Trust may, at its option, elect to pay such balance over a period of up to five years. Directors participating in this plan and amounts deferred for 2011 include Ms. Walker \$13,230, Mr. Brown \$13,230, and Mr. Fry \$13,230.

In January of 2008, the Board of Directors adopted the Director Pay for Performance Program (the "Pay for Performance Program") under the terms of which non-employee directors are eligible to receive an annual cash bonus if Franklin Financial achieves certain financial targets established in advance by the Board. The financial targets are expressed in terms of the average annual increase in diluted earnings per share over rolling measurement periods of three calendar years each. (For example, for 2011 the three-year measurement period consisted of calendar years 2009, 2010 and 2011.) The target bonus payable under the Pay for Performance Program is an amount equal to 10% of the retainer fees earned by a participant during the third calendar year of a three year measurement period. For example, if a participating director earned retainer fees of \$21,000 in 2011, his target bonus would be \$2,100. A participating director may receive a bonus which is more or less than the target bonus, depending upon the extent to which Franklin Financial meets or exceeds the financial target established by the Board for the three-year measurement period involved. If the average increase in Franklin Financial's diluted earnings per share during the three year period ending on December 31, 2011 is less than 5%, the director in this example would be entitled to receive a cash bonus equal to 50% of his target bonus or \$1,050 ( $\$21,000 \times 10\% \times 50\%$ ). If the average increase in diluted earnings per share during the measurement period is between 5 % and 7.99%, the director would be entitled to receive a cash bonus equal to 100% of his target bonus or \$2,100 ( $\$21,000 \times 10\% \times 100\%$ ). If the average increase in diluted earnings per share during the measurement period is 0% or less, no bonus is earned. The amount of the cash bonus can be as much as 150% of the director's target bonus, or \$3,150 in this example, if the average increase in diluted earnings per share during the measurement period is greater than 10% ( $\$21,000 \times 10\% \times 150\%$ ). Bonuses earned under the Pay for Performance Program are paid in the second quarter of the calendar year next following the third calendar year of the three-year measurement period.

The Personnel Committee met in February 2012 to address the Directors Pay for Performance Program. The Company's average annual change in diluted earnings per share for calendar years 2008 through 2011 was approximately (8.13%) which was below the target range previously established by the Committee. Accordingly, in accordance with the principles discussed above, there will be no Directors' Pay for Performance payout in 2012 for 2011.

At the February 2012 meeting, the Personnel Committee also established financial targets applicable to payouts under the Directors' Pay for Performance Program for 2012.

Director fees payable by F&M Trust from 1982 to 1988 were eligible to be deferred under a deferred compensation arrangement known as the Brick Plan. The components of the plan were life insurance policies on the lives of the participating directors with the Bank as beneficiary and an individual agreement between the Bank and each director that outlined future payments to the director commencing at age 65. The director is to be paid a fixed amount monthly over a ten year period beginning at age 65. Directors who received payouts are Messrs. Bender and Sioberg. Director Walker will be paid out beginning in March 2012.

## **BOARD STRUCTURE AND COMMITTEES**

Leadership of the Board of Directors is placed in an independent Chairman. The Board performs its risk management oversight role through its committee structure. In addition to the Audit, Nominating, and Personnel committees described below, the Board also has Asset-Liability, Credit Risk Oversight, and Investment and Trust committees. An independent director chairs each of these committees. Board members are selected to serve on committees where it is believed that their knowledge and experience will be most beneficial to the Corporation. Each board committee meets at least quarterly.

### **Audit Committee**

Members of the Audit Committee during 2011 were G. Warren Elliott, Chairman, Messrs. Brown, Fisher, Jennings, Mowery and Sioberg, who retired from the Board of Directors on December 31, 2011. The Audit Committee assists the Board of Directors in fulfilling its responsibilities in providing oversight over the integrity of Franklin Financial's financial statements, Franklin Financial's compliance with applicable legal and regulatory requirements and the performance of Franklin Financial's internal audit function. The Audit Committee is responsible for the appointment, compensation, oversight and termination of Franklin Financial's independent auditors and regularly evaluates the independent auditors' independence from Franklin Financial and Franklin Financial's management. The Audit Committee reviews and approves the scope of the annual audit and is also responsible for, among other things, reporting to the Board on the results of the annual audit and reviewing the financial statements and related financial and nonfinancial disclosures included in Franklin Financial's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. The Audit Committee also reviews Franklin Financial's disclosure controls and procedures and internal controls. The Audit Committee prepares the Audit Committee Report for inclusion in the annual proxy statement and oversees investigations into complaints concerning accounting and auditing matters. The Audit Committee also meets periodically with Franklin Financial's independent auditors and with Franklin Financial's internal auditors outside of the presence of management and has authority to retain outside legal, accounting and other professionals to assist it in meeting its responsibilities.

The Audit Committee operates under a charter adopted by the Board of Directors, which is posted on Franklin Financial's website at [www.franklinfin.com](http://www.franklinfin.com). All members of the Audit Committee were at all times during 2011 "independent directors" as such term is defined by the rules of the NASDAQ Stock Market. The Board of Directors has not designated an "audit committee financial expert" as such term is defined in the Sarbanes-Oxley Act and applicable SEC rules and regulations because it believes that each member of the Audit Committee is qualified in terms of background and experience to perform his duties as a member of that Committee and because it believes that an audit committee financial expert is not necessary in light of Franklin Financial's size, the nature of its business and the relative lack of complexity of its financial statements. The Audit Committee met four times during 2011.

### **Nominating Committee**

Members of the Nominating Committee during 2011 were Charles M. Sioberg, Chairman, who retired from the Board of Directors on December 31, 2011, Ms. Walker and Messrs. Bender and Patterson. The Nominating Committee is responsible, among other things, for recommending to the Board of Directors persons to be nominated for election to the Board, persons to be appointed to fill vacancies on the Board and persons to be elected as officers of the Board. The Nominating Committee operates under a charter adopted by the Board of Directors, which is posted on Franklin Financial's website at [www.franklinfin.com](http://www.franklinfin.com). All members of the Nominating Committee were at all times during 2011 "independent directors" as such term is defined by the rules of the NASDAQ Stock Market. The Nominating Committee met one time in 2011.

### **Personnel Committee**

Members of the Personnel Committee during 2011 were Charles M. Sioberg, Chairman, who retired from the Board of Directors on December 31, 2011, and Messrs. Brown, Elliott, Fisher, Fry and Jennings. The Personnel Committee assists the Board of Directors in fulfilling its responsibilities in providing oversight over Franklin Financial's compensation policies and procedures. The Personnel Committee is responsible for, among other things, administering and making grants and awards under the Incentive Stock Option Plan of 2002 and the Employee Stock Purchase Plan. The Personnel Committee is also responsible for annually evaluating the compensation of Franklin Financial's Chief Executive Officer. The Personnel Committee also prepares the Compensation Committee Report on Executive Compensation for inclusion in the annual proxy statement. The Personnel Committee operates under a charter adopted by the Board of Directors, which is posted on Franklin Financial's website at [www.franklinfin.com](http://www.franklinfin.com). All members of the Personnel Committee were at all times during 2011 "independent directors" as such term is defined by the rules of the NASDAQ Stock Market. The Personnel Committee met six times during 2011.

### **Compensation Committee Interlocks and Insider Participation**



No member of the Personnel Committee is an employee or former employee of Franklin Financial or F&M Trust. There were no compensation committee "interlocks" at any time during 2011, which in general terms means that no executive officer or director of Franklin Financial served as a director or member of the compensation committee of another entity at the same time as an executive officer of such other entity served as a director of Franklin Financial.

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## **EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

#### Introduction

The Personnel Committee of the Company's Board of Directors administers the Company's executive compensation program. The Company currently has nine senior officers (the President and Chief Executive Officer and eight subordinate officers) who have been designated as senior officers by the Board. The Personnel Committee, which is composed entirely of independent directors, is responsible for reviewing and approving senior officer compensation, for evaluating the President and Chief Executive Officer, for overseeing the administration of the Company's compensation program generally as it affects all other officers and employees, for administering the Company's incentive compensation programs (including the Incentive Stock Option Plan), for approving and overseeing the administration of the Company's employee benefits programs, for providing insight and guidance to management with respect to employee compensation generally, and for reviewing and making recommendations to the Board with respect to director compensation.

The Personnel Committee operates under a charter adopted by the Board of Directors. The Personnel Committee annually reviews the adequacy of its charter and recommends changes to the Board for approval. The Personnel Committee meets at scheduled times during the year and on an "as necessary" basis. The Chairman of the Personnel Committee reports on Committee activities and makes Committee recommendations at meetings of the Board of Directors.

At the Company's annual meeting of shareholders held in 2011, the shareholders approved the compensation paid to our Named Executive Officers (as defined below) in 2010 in a non-binding advisory vote by an overwhelming majority (93.4%) of the votes cast. In consideration, in part, of that vote, the Personnel Committee did not make any material changes to its compensation policies, procedures or practices for 2011.

#### Compensation Philosophy

The Personnel Committee believes that executive compensation should be tied to individual performance, should vary with the Company's performance in achieving its financial and non-financial objectives, and should be structured so as to be closely aligned with the interests of the Company's shareholders. The Committee also believes that the compensation package of each senior officer should include an at-risk, performance-based component and that this component should increase as an officer's authority and responsibility increase. The Committee's philosophy is

reflected in the Company's compensation objectives for its senior officers, which are as follows:

- Create a merit-based, pay for performance incentive-driven system which is linked to the Company's financial results and other factors that directly and indirectly influence shareholder value;
- Establish a compensation system that enables the Company to attract and retain talented executives who are motivated to advance the interests of the Company's shareholders; and
- Provide a total compensation package that is fair in relation to the compensation practices of comparable financial institutions.

To the extent that established performance goals are exceeded, the Committee believes that the Company's senior executives should be financially rewarded. It should be noted that all employees, including the Company's executive officers, are employed at will and do not have employment contracts, severance pay agreements or "golden parachute" arrangements that would be triggered upon the occurrence of a change in control of the Company.

#### Components of Compensation

The elements of total compensation paid by the Company to its senior officers, including the President and Chief Executive Officer (the "CEO") and the other executive officers identified in the Summary Compensation Table which appears following this Compensation Discussion and Analysis (the CEO and the other executive officers identified in the Summary Compensation Table are sometimes referred to collectively as the "Named Executive Officers"), include the following:

- Base salary;
- Short-term incentive compensation in the form of cash awards granted under the Company's Management Group Pay for Performance Program;
- Long-term incentive compensation in the form of stock options granted under the Company's Incentive Stock Option Plan;
- Benefits under the Company's pension plan; and
- Benefits under the Company's health and welfare benefits plans.

## Base Salary

The base salaries of the Named Executive Officers are reviewed by the Personnel Committee annually in December of each year, as well as at the time of any promotion or significant change in job responsibilities. Base salaries for our senior officers are established based upon the scope of their responsibilities, taking into account compensation paid by comparable financial institutions for similar positions. Specifically, a salary range is determined for each position based upon published salary surveys. These surveys report base salary ranges for comparable positions at similar financial institutions (currently ranging in size from \$500 million to \$1.0 billion in total assets) within central Pennsylvania. Data from financial institutions of similar size located elsewhere within Pennsylvania and in adjoining and other states is also analyzed for comparative purposes.

The Committee then establishes a "market value" for each position (defined as the mid-point of the approved salary range, plus ten percent and minus ten percent) in order to insure that the base salary for each senior executive falls within the market value for that position. An adjustment to the executive's base salary, effective as of January 1 of each year, may (or may not) be approved by the Committee, based upon its assessment of the market value of the position involved.

The Personnel Committee met in December of 2010 and considered the base salaries of the Company's senior officers at that meeting. The Committee applied the principles discussed above and authorized 2011 base salary increases for the following named Executive Officers, as follows: (a) Mr. Snell from \$231,634 to \$243,215; (b) Mr. Hollar from \$135,434 to \$141,518; (c) Mr. Kugler from \$116,220 to \$119,704; and (d) Mr. Cekovich from \$108,056 to \$112,372.

Base salary earned by each Named Executive Officer during calendar year 2011 is reported in Column (c) of the Summary Compensation Table which appears below following this Compensation Discussion and Analysis.

The Personnel Committee met in December 2011 and considered the base salaries of the Company's senior officers at that meeting. The Committee applied the principles discussed above and authorized 2012 base salary increases of the following named Executive Officers, as follows: (a) Mr. Snell from \$243,215 to \$252,954; (b) Mr. Hollar from \$141,518 to \$154,544; (c) Mr. Kugler from \$119,704 to \$124,488; and (d) Mr. Cekovich from \$112,372 to \$116,870.

## Short-Term Incentive Compensation

The Company has adopted the Management Group Pay for Performance Program (the "PFP Program") for purposes of linking a portion of the compensation of its senior officers, including the Named Executive Officers, to the success of

the Company in meeting certain financial targets which are established annually by the Personnel Committee. Under the terms of the PFP Program, the Committee establishes in February of each year eight distinct financial targets, including the following: (i) return on average equity, (ii) return on average assets, (iii) tax equivalized net interest income, (iv) tax equivalized operating income, (v) efficiency ratio (i.e., noninterest expense as a percentage of operating income), (vi) net loan charge-offs as a percentage of average loans, (vii) non-performing assets as a percentage of total assets, and (viii) net income. Targets (vi) and (vii) are measured against national peer group loan quality data published by the Federal Deposit Insurance Corporation (which we refer to as the "FDIC") for bank holding companies with total assets between \$500 million and \$1.0 billion. The PFP Program also incorporates a factor for the executive's annual performance evaluation rating, which, in the case of the CEO, is determined by the Board of Directors following consideration of a recommendation made by the Committee.

Each PFP Program target is evaluated separately and is assigned a payout range expressed as a percentage of annual base salary. Payouts under the PFP Program are determined on the basis of the Company's performance relative to the targets established by the Committee and on the basis of each executive's annual performance evaluation. The aggregate annual payout under the PFP Program ranges from 0 percent to 20 percent of an executive's annual base salary. In order to earn a payout in any target category, the established target must be met or exceeded. Because payout amounts under certain of the PFP Program targets cannot be finally determined until peer group loan quality data are released by the FDIC (which does not occur until well after the close of a calendar year) and because these payout amounts are dependent in part upon individual performance evaluations (which are conducted in March of each year), the payout amounts earned under the Program in respect of the Company's performance in a given calendar year are generally calculated and paid in April of the following year.

Although 50% of the amount earned was paid to qualifying participants, the management group waived receipt of a payout in 2011.

The Personnel Committee met in February 2012 to establish financial targets applicable to payouts under the Pay for Performance Program for 2012.

### Long-Term Incentive Compensation

The Company uses the grant of incentive stock options under its Incentive Stock Option Plan as the primary vehicle for providing long-term incentive compensation opportunities to its senior officers, including the Named Executive Officers. The Plan was adopted by the shareholders in 2002 and provides for the grant of incentive stock options to purchase shares of Company common stock at a per share exercise price which is not less than 100% of the fair market value of such shares on the date that the option is granted. Incentive stock options are the only form of award provided for under the Plan.

The Personnel Committee has historically granted stock options annually at its meeting in February of each year. In administering the Plan, the Committee establishes an annual option award target ranging from 500 to 2,500 shares for each of eight officer salary grade levels. The Committee has also established a target range for the Company's average annual increase in diluted earnings per share during the three most recently ended calendar year periods. Options may be granted by the Committee for more or fewer shares than the established option award target for a given salary grade depending upon the Company's growth in fully diluted earnings per share relative to the target range established by the Committee. If the average annual increase in fully diluted earnings per share for the three most recently ended calendar years falls within the target range established by the Committee, each executive is granted an option for a number of shares equal to his option award target. If the average increase falls below the target range established by the Committee, but is greater than 0 percent, the option granted to each executive is for a number of shares equal to 50 percent of his option award target. If the average increase exceeds the target range established by the Committee, the number of shares subject to each option can be as much as 150 percent of his option award target.

Options are granted at an exercise price equal to the fair market value per share of the Company's common stock on the date of grant, which fair market value is determined in accordance with the terms of the Plan on the basis of the average of the average of the closing bid and asked quotations for the five trading days immediately preceding the applicable date as reported by two brokerage firms selected by the Committee which are then making a market in the Company's stock, except that if no closing bid or asked quotation is available on one or more of such trading days, fair market value is determined by reference to the five trading days immediately preceding the applicable date on which closing bid and asked quotations are available. Options granted under the Plan vest after the expiration of six months from the date of grant or upon the occurrence of a change in control of Franklin Financial if a change in control occurs prior to the expiration of such six month period. Neither the CEO nor any other Named Executive Officer has any role in selecting the date of grant of any stock option granted under the Plan.

The Committee's philosophy in utilizing this performance measurement is that long term growth in fully diluted earnings per share is the primary driver of both the market value of the Company's common stock and of the Company's capacity to regularly increase the cash dividends which it pays to its shareholders.

The Company's diluted earnings per share for calendar years 2007 through 2010 were \$2.40, \$2.24, \$1.71 and \$1.96, respectively, resulting in an average annual growth in diluted earnings per share for the three years ended December 31, 2010 of approximately (5.27%). This did not compare favorably to the target range established by the Committee and, accordingly, the Committee did not authorized in 2011 the issuance of incentive stock option awards to the Named Executive Officers.

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Information concerning the number of options held by each Named Executive Officer as of December 31, 2011 is set forth in the Outstanding Equity Awards at Fiscal Year-End Table which appears below following this Compensation Discussion and Analysis.

The Personnel Committee also addressed option awards at its February 2012 meeting. The Company's average annual change in diluted earnings per share for calendar years 2008 through 2011 was approximately (8.13%) which was below the target range previously established by the Committee. Accordingly, in accordance with the principles discussed above, the Committee did not then grant any incentive stock options to the Named Executive Officers.

#### Employee Stock Purchase Plan

The Company established its Employee Stock Purchase Plan to encourage its employees to acquire a stake in the future of the Company by purchasing shares of its common stock. All persons who are employed by the Company and its subsidiaries at the grant date and December 31 of the preceding year in which the option is granted are eligible to be granted options under the plan, except that the Personnel Committee may exclude employees who customarily work twenty hours or less per week. The number of shares subject to options each calendar year is allocated uniformly among the eligible employees based upon each employee's qualifying compensation (base salary plus overtime pay) as compared to the aggregate qualifying compensation of all plan participants. The Personnel Committee determines the exercise price of each option, which may not be less than 90 percent of the fair market value of the Company's common stock on the grant date. No option may have a term longer than one year from the grant date. The options granted to the named executive officers under the plan in 2011 are reported below in the Grants of Plan-Based Awards in 2011 Table.

#### Retirement Plan

The senior officers of the Company are eligible to participate in the various retirement plans maintained by F&M Trust for the benefit of its employees. The F&M Trust Pension Plan is a defined benefit plan which provides retirement benefits based upon a career-average compensation formula. In order to mitigate the adverse affects applicable to certain Pension Plan participants as a consequence of the adoption of a career-average compensation formula, F&M Trust adopted, effective January 1, 2008, a Qualified Pension Supplemental Plan and a Nonqualified Deferred Compensation Plan. The Pension Plan was closed to new employees as of April 1, 2007 and such new employees are eligible to participate only in the F&M Trust 401(k) Plan. The F&M Trust 401(k) Plan covers substantially all employees of F&M Trust who have completed one year and 1,000 hours of service. In 2011, employee contributions to the plan were matched at 100% up to 4% of each employee's deferrals, plus 50% of the next 2% of deferrals from participants' eligible compensation. In addition, a 100% discretionary profit sharing contribution of up to 2% of each employee's eligible compensation is possible, provided net income targets are achieved. The Personnel Committee of the Company's Board of Directors establishes the net income targets annually. Additional information relating to the Company's retirement plans is set forth in the Pension Benefits Table which appears below



following this Compensation Discussion and Analysis and in the narrative which accompanies that Table.

#### Health and Welfare Employee Benefits Plans

The Company provides healthcare, life and disability insurance and other employee benefits programs to its employees, including its senior officers. The Personnel Committee is responsible for overseeing the administration of these programs and believes that its employee benefits programs should be comparable to those maintained by Central Pennsylvania financial institutions of comparable size so as to assure that the Company is able to maintain a competitive position in terms of attracting and retaining officers and other employees. The Company's employee benefits plans are provided on a nondiscriminatory basis to all employees.

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### Risk Profile of Compensation Programs

The Committee has determined that the Company's compensation policies and practices do not present any risks that would be reasonably likely to have a material adverse effect on the Company. All of the Company's employees are either salaried employees or hourly wage employees. The Committee does not believe that the salaries or wages paid to our employees present any risks that would be reasonably likely to have a material adverse effect on the Company. The Management Group Pay for Performance Plan provides for the payment of cash bonuses to selected officers if the Corporation meets certain financial targets set annually by the Committee. Because such targets relate to interrelated measures of return, asset quality and expense control, the incentives to maximize the Company's performance with respect to any one target tend to be counterbalanced by the incentives to maximize one or more other targets, thereby minimizing the risks that otherwise might be presented by the Plan. Grants of stock options are awarded at targeted numbers of shares between 500 to 2,500 shares depending upon officer salary grade levels and targeted ranges for the Corporation's average annual increase in diluted earnings per share during the three most recent calendar years. Because grants of stock options are limited to targeted numbers of shares and based upon the corporation's average increase in diluted earnings per share over three years, there is little incentive to engage in conduct that would be reasonably likely to have a material adverse effect on the Company.

### Procedure Followed by the Personnel Committee in Determining Executive Compensation

The Committee annually determines the compensation of each senior officer (base salary, payout under the PFP Program and stock option grant under the Incentive Stock Option Plan) in accordance with the factors discussed above. The CEO plays an important role in the compensation process, particularly as it applies to the other Named Executive Officers. Specifically, the CEO evaluates officer performance, provides input in connection with establishing individual performance targets and objectives, and makes recommendations as to base salary levels. The CEO participates in Committee meetings at the Committee's request in connection with the evaluation of the other Named Executive Officers and in order to provide background information.

The Committee, meeting in executive session, performs an annual performance evaluation of the CEO and determines his compensation in accordance with the factors discussed above. Each member of the Committee independently evaluates the CEO by using a written performance evaluation form to prepare a formal evaluation. The evaluation form includes ratings for key accountabilities, including strategic leadership, business and organization knowledge, decision making, customer focus, personnel selection and development, vision/direction setting, adaptability and community involvement.

The Company has not in the past five years employed compensation consultants in connection with the compensation process and does not anticipate that it will do so in 2012.

### Restatement of Financial Statements

The Personnel Committee is of the view that, to the extent permitted by law, it has authority to retroactively adjust any cash or equity-based incentive award paid to any senior officer (including any Named Executive Officer) where the award was based upon the achievement by the Company of specified financial goals and it is subsequently determined following a restatement of the Company's financial statements that the specified goals were not in fact achieved.

### Stock Ownership Guidelines

The Board of Directors believes that the interests of its senior officers and its shareholders should be aligned and for this reason encourages its senior officers, including the Named Executive Officers, to acquire a meaningful investment position in the Company's common stock so as to have a meaningful personal financial stake in the success of the Company. However, the Company has not adopted formal stock ownership guidelines.

### Compensation Committee Report

In connection with the preparation of the disclosures set forth in this Proxy Statement, the Personnel Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis set forth above with the management of Franklin Financial. Based upon this review and discussion, the Personnel Committee has recommended to the Board of Directors that this Compensation Discussion and Analysis be included in this Proxy Statement and that it be incorporated by reference in the Annual Report on Form 10-K for the year ended December 31, 2011 filed by Franklin Financial with the SEC.

This report is not intended to be "soliciting material," is not intended to be "filed" with the SEC, and is not intended to be incorporated by reference into any filing made by Franklin Financial with the SEC under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether such filing is made before or after the date hereof and notwithstanding any general incorporation language contained in any such filing.

The foregoing report is submitted by the Personnel Committee:

G. Warren Elliott, Chairman  
 Martin R. Brown  
 Daniel J. Fisher  
 Donald A. Fry  
 Allan E. Jennings, Jr.

### Compensation Tables and Additional Compensation Disclosure

#### Total Compensation

The following table provides certain summary information concerning total compensation paid or accrued by Franklin Financial and F&M Trust to William E. Snell, Jr., the President and Chief Executive Officer of Franklin Financial, to Mark R. Hollar, Senior Vice President and Chief Financial Officer of Franklin Financial, and to each of the two most highly compensated executive officers other than Messrs. Snell and Hollar whose total compensation in 2011 exceeded \$100,000. No other executive officer received total compensation in 2011 in excess of \$100,000.

#### SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$) <sup>(1)</sup>	Bonus Awards (\$) <sup>(2)</sup>	Stock Awards (\$) <sup>(3)</sup>	Option Awards (\$) <sup>(4)</sup>	Non-Equity Incentive Plan Compensation (\$) <sup>(5)</sup>	Change in Pension Value and Nonqualified Deferred	All Other Compensation (\$) <sup>(7), (8), (9), (10)</sup>	Total (\$) <sup>(11)</sup>
							Earnings (\$) <sup>(6)</sup>		

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(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
William E. Snell	2011	242,215	-	-	-	-	141,609	24,697	408,521
President &	2010	231,634	-	-	-	-	69,049	28,432	329,115
Chief Executive Officer	2009	224,874	-	-	4,873	-	55,373	27,894	313,014
Mark R. Hollar									
Senior Vice	2011	141,518		-	-	-	41,115	10,212	192,845
President	2010	135,434	-	-	-	-	16,180	9,850	161,464
& Chief	2009	127,166	-	-	3,313	-	11,047	9,351	150,877
Financial Officer									
Michael E. Kugler	2011								