

Service | Trust | Commitment | Integrity



**ORRSTOWN**  
**FINANCIAL SERVICES, INC.**  
*A Tradition of Excellence*

**2011 ANNUAL REPORT**



**Our Mission:**  
We Help Customers  
Realize Their Dreams

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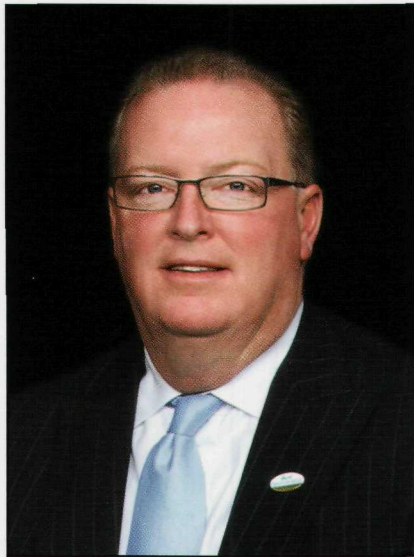
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WITH NEARLY \$1.5 BILLION IN ASSETS, ORRSTOWN FINANCIAL SERVICES, INC. AND ITS WHOLLY-OWNED SUBSIDIARY, ORRSTOWN BANK, PROVIDE A FULL RANGE OF CONSUMER AND BUSINESS FINANCIAL SERVICES THROUGH TWENTY-ONE BANKING OFFICES LOCATED IN CUMBERLAND, FRANKLIN, AND PERRY COUNTIES, PENNSYLVANIA, AND WASHINGTON COUNTY, MARYLAND. ORRSTOWN FINANCIAL SERVICES, INC.'S STOCK IS TRADED ON THE NASDAQ CAPITAL MARKET UNDER THE SYMBOL ORRF.



# Service | Trust | Commitment | Integrity



## To Our Shareholders, Customers, and Friends

Orrstown Financial Services, Inc. (the "Company") faced significant challenges in 2011. As a result, we were not able to continue historical performance trends or meet shareholder expectations. The protracted recession and fitful recovery, characterized by record levels of unemployment, a weak housing market, and depressed real estate values, had a material impact on the Company's performance. Our commercial loan portfolio, and specifically the commercial real estate sector, performed poorly, resulting in a much higher than usual provision for loan losses and an elevated level of charge offs. Additionally, we took a one-time non-cash goodwill impairment charge of \$19.4 million in the fourth quarter which negatively impacted earnings, resulting in a net loss of \$32.0 million for the year. The goodwill impairment charge had a nominal effect on our regulatory capital.

We are not satisfied with our results and know you deserve better. We have taken decisive measures to ensure that we are better positioned to withstand future challenges. We will continue to resolve problem asset issues and to strengthen our credit administration processes. We are heeding the advice and guidance of the governmental agencies that regulate our Company, the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking, and have begun the process of stress testing many aspects of the organization. We have also made structural changes and allocated additional resources to reposition the organization to operate from an "enterprise risk" perspective. Orrstown Bank (the "Bank") is considered well capitalized by regulatory standards and will continue to take prudent measures to preserve capital.

Perhaps most importantly, we have learned from the recent challenges and implemented enduring cultural changes to strengthen the Company. Orrstown Bank has served the communities of this region for more than 92 years and we are committed to a course of action that results in many more decades of service. The Board of Directors, the Senior Management team and all 345 employees humbly thank you for your continued support and loyalty.

Sincerely,

A handwritten signature in black ink that reads "Thomas R. Quinn, Jr." with a stylized flourish at the end.

Thomas R. Quinn, Jr.  
President and Chief Executive Officer



# Service



When Orrstown Bank was founded in 1919 the United States was a very different country. World War I had recently ended and in January the League of Nations was formed to maintain world peace. The 18th amendment to the Constitution authorizing prohibition was ratified, the automobile was becoming commonplace, the first transatlantic flight occurred and the Great Depression was still ten years away.

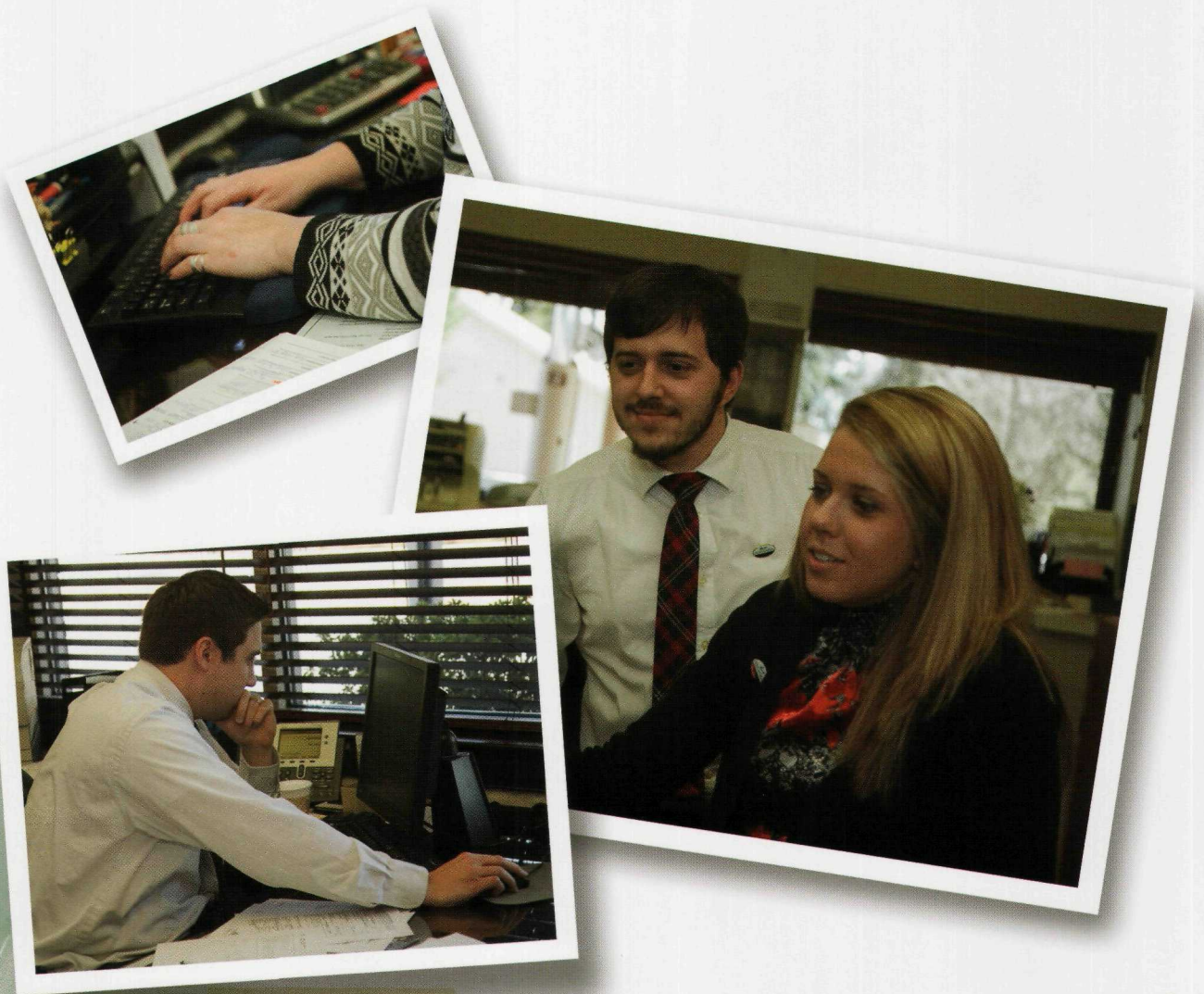
In the rural town of Orrstown, Pennsylvania forward-thinking businessmen recognized the need for a bank to serve the needs of the growing community. They understood that, in order for the bank to prosper, it needed to embrace the core values of service, trust, commitment, and integrity. While it is unlikely anyone could have envisioned the dramatic changes in the economic landscape nine decades later, the Bank's Founders would have undoubtedly understood the importance of remaining true to their vision of a community bank to serve the needs of the families and businesses of the region and would applaud our commitment encapsulated in the tagline: **From here. For here. For good.**



## SERVICE

Exceeding customers' expectations and providing an unparalleled level of service has always been a cornerstone of our brand promise. While we have embraced technology to more effectively deliver excellent customer service, we understand that there is no substitute for face to face interaction between customer and banker. We also remain unwavering in our support of the communities we serve. Our 345 team members spend thousands of hours volunteering in the community, whether serving in a leadership role for a civic organization, helping out the local food bank, or donating blood to the American Red Cross. Even though 2011 was a challenging year for the Bank in many ways, we continued to generously support worthy organizations throughout the region.

The Orrstown Bank Foundation, Inc. will also continue to fulfill its mission to make a positive impact throughout our market area by supporting organizations that address local humanitarian and civic needs. Although Ken Shoemaker will be retiring from the Board of Directors after more than 25 years of service to Orrstown Bank, he will continue to serve as President Emeritus of the Bank and as the President of the Orrstown Bank Foundation, Inc. where he will provide support and leadership.



# Trust



# Commitment

## TRUST & COMMITMENT

As shareholders of Orrstown Financial Services, Inc. you have demonstrated your trust in Orrstown Bank by investing in the Company. While we continue to attract new investors, many of you have been loyal shareholders for decades. Throughout that time, our goal has always been to provide a solid return on your investment through steady appreciation in stock value and a consistent dividend stream. As you are aware, in 2011 our history of more than 20 consecutive years of dividend increases ended with the suspension of dividends in the 4th quarter of 2011. Your Board of Directors and Management are committed to restoring the Company's financial performance to historic levels and to resuming dividend payments. In 2012 we will focus our attention on several key areas to strengthen and better position the Company for the future:

- We will continue resolution of problem asset issues and strengthening of our credit administration processes.
- We have a variety of proven products and services to grow core deposits and will be launching new initiatives to grow our deposit balances in anticipation of increased loan demand as the economy recovers.
- We are building and strengthening our team. We very carefully expanded our associate ranks by more than 9% last year and at year end were 345 strong. Further, recent additions to our training department will ensure that we continue to provide the level of service and state-of-the-art expertise that our customers expect and deserve.
- In light of the prolonged economic downturn, we are more intensively operating the Company from an enterprise risk management perspective, and have been allocating resources to prevent future deficiencies in this area.
- We understand how to leverage technology. In 2011, we launched a more fully featured website and later this year we will be delivering some exciting new products and services from that Web-based platform. In addition, we recently implemented improved business intelligence tools that allow us to better understand our customers' complete financial picture in order to improve our service levels.
- We are reinforcing the Orrstown brand. Based on recent customer feedback, we will aggressively market the "Orrstown Story" to introduce new customers and businesses to the Bank via a combination of advertising, public relations and other community-based initiatives.







The Board of Directors and Management of Orrstown Bank have always operated with the highest level of integrity and transparency. Our decisions have been guided by the philosophy; *do the right thing for the long term benefit of our customers, shareholders, employees, and communities*. Over the past year adherence to this ethic has resulted in short term pain for all of our constituents as we have made some difficult choices to position the Bank to better withstand future challenges. However, we are confident that the result of these decisions will be a stronger hometown bank from here, for here, for good.

# Integrity

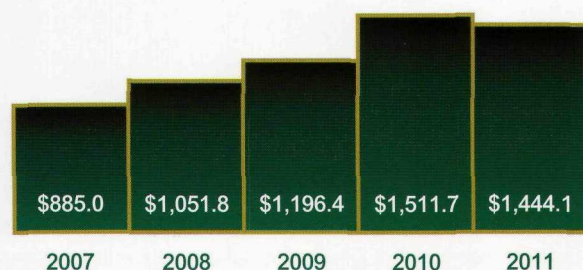


# Financial Highlights

For the Years Ended December 31

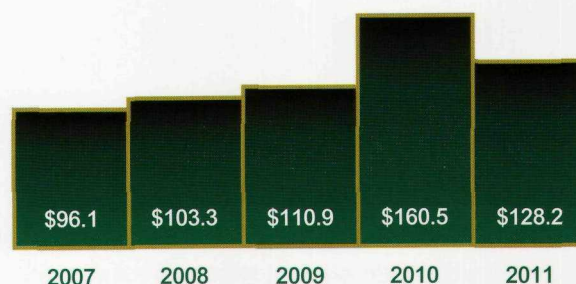
## ORRF Total Assets

*In Millions*



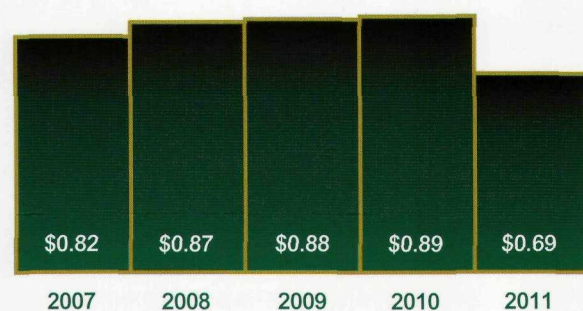
## ORRF Shareholders' Equity

*In Millions*



## ORRF Cash Dividends

*Per Share*

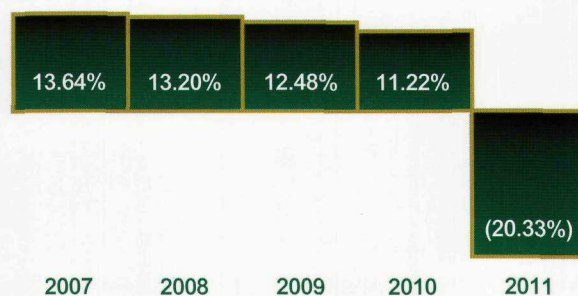


## ORRF Net Income (loss)

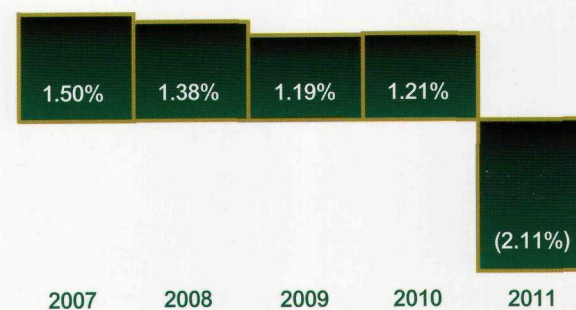
*Per Share*



## ORRF Return on Average Equity



## ORRF Return on Average Assets





# Financial Highlights

For the Years Ended December 31

<i>(Dollars in thousands, except per share data)</i>	2011	2010	% Increase
<b>For the Years Ended December 31</b>			
Interest income	\$ 60,361	\$ 58,423	3.3%
Interest expense	10,754	12,688	( 15.2%)
Net interest income	49,607	45,735	8.5%
Noninterest income (excluding securities gains)	20,396	19,340	5.5%
Noninterest expense (excluding impairment of goodwill)	41,032	36,735	64.6%
Goodwill impairment charge	19,447	0	NM
Net income (loss)	( 31,964)	16,581	NM
Net income (loss) excluding goodwill impairment charge (1)	( 12,968)	16,581	NM
<b>At Year-End</b>			
Assets	\$1,444,097	\$1,511,722	( 4.5%)
Loans	967,993	966,986	0.1%
Deposits	1,216,902	1,188,377	2.4%
Repurchase agreements	15,013	87,850	( 82.9%)
Shareholders' equity	128,197	160,484	( 20.1%)
Trust and brokerage assets under management	947,273	929,327	1.9%
<b>Per share data</b>			
Net income (loss) - basic	(\$ 3.98)	\$ 2.18	(282.6%)
Net income (loss) - diluted	( 3.98)	2.17	(283.4%)
Net Income (loss) - diluted excluding goodwill impairment charge (1)	( 1.62)	2.17	NM
Cash dividends	0.69	0.89	( 22.5%)
Book value at year end	15.92	20.10	( 20.8%)
Tangible book value at year end	15.79	17.50	( 9.8%)
<b>Performance statistics</b>			
Return on average equity	( 20.33%)	11.22%	NM
Return on average tangible equity (1)	( 9.17%)	13.19%	NM
Return on average assets	( 2.11%)	1.21%	NM
Return on average tangible assests (1)	( 0.86%)	1.23%	NM
Equity / assets at year end	8.88%	10.62%	NM

NM - Not Meaningful

(1) Supplemental Reporting of Non-GAAP-based Financial Measures

Net income (loss) excluding impairment charge, and related net income (loss) per share effect, are non-GAAP-based financial measures. Management feels they are a more accurate comparison of year to year performance that excludes the effects of the non-cash goodwill impairment charge. Management utilizes net income (loss) excluding impairment charge and related per share impact, as it is believed to better reflect the sustainable operating performance of the Company. Return on average tangible assets and return on average tangible equity are also non-GAAP-based financial measures calculated using non-GAAP-based amounts. The Company calculates the return on average tangible assets and equity by excluding the balance of intangible assets and their related amortization expense from the calculation of return on average assets and equity. Management uses returns on average tangible assets and equity to assess the Company's core operating results and believes that they are better measures of our operating performance as they are based on the Company's tangible assets and capital. Further, we believe that by excluding the impact of purchase accounting adjustments it allows for a meaningful comparison with the Company's peers, particularly those that may not have acquired other companies. In addition, this is consistent with the treatment by bank regulatory agencies, which exclude goodwill and other intangible assets from the calculation of risk-based capital ratios. However, these non-GAAP financial measures are supplemental and are not a substitute for an analysis based on GAAP measures. A reconciliation of net income (loss) to net income (loss) excluding impairment charge, return on average assets and equity to the return on average tangible assets and equity, respectively, is set forth below.

<i>(Dollars in thousands)</i>	2011	2010
<b>For the Years Ended December 31</b>		
Net income (loss) (GAAP basis)	(\$ 31,964)	\$16,581
Effect of goodwill impairment charge	18,996	0
Net income (loss) excluding goodwill impairment charge	(\$ 12,968)	\$16,581
Return on average assets (GAAP basis)	( 2.11%)	1.21%
Effect of excluding average intangible assets and related amortization and impairment, net of tax	1.25%	0.02%
Return on average tangible assets	( 0.86%)	1.23%
Return on average equity (GAAP basis)	( 20.33%)	11.22%
Effect of excluding average intangible assets and related amortization and impairment, net of tax	11.16%	1.97%
Return on average tangible equity	( 9.17%)	13.19%





## Board of Directors

*Pictured above, left to right*

### **Glenn W. Snoke**

Director since 1999  
President, Snoke's Excavating  
& Paving, Inc.

### **John S. Ward**

Director since 1999  
Former President,  
Modern Transit Partnership  
Retired Chief Clerk of  
Cumberland County

### **Kenneth R. Shoemaker** *Secretary of the Company*

Director since 1986  
President Emeritus,  
Orrstown Bank

### **Gregory A. Rosenberry**

Director since 1997  
President and General Partner,  
Rosenberry Family Limited Partnership

**Thomas R. Quinn, Jr.**  
*President and  
Chief Executive Officer*  
Director since 2009

### **Joel R. Zullinger** *Chairman*

Director since 1981  
An attorney with Zullinger-Davis PC

**Andrea Pugh**  
Director since 1996  
President & Sole Member,  
PharmCare Consultants LLC

**Mark K. Keller**  
Director since 2009  
State Representative 86th District

### **Jeffrey W. Coy** *Vice Chairman*

Director since 1984  
Former Commissioner,  
PA Gaming Control Board—2005-2011  
Former State Representative  
89th District—1983-2004

**Anthony F. Ceddia**  
Director since 1996  
President Emeritus,  
Shippensburg University  
Leadership and Management Consultant





## Bank Executive Management Team

*Pictured above, left to right*

**Bradley S. Everly**  
Executive Vice President  
Chief Financial Officer

**Michael A. Moore**  
Senior Vice President  
Chief Credit Officer

**Barbara E. Brobst**  
Executive Vice President  
Human Resources

**Jeffrey S. Gayman**  
Executive Vice President  
Chief Commercial Officer

**Jeffrey W. Embly**  
Senior Executive Vice President  
Chief Operating Officer

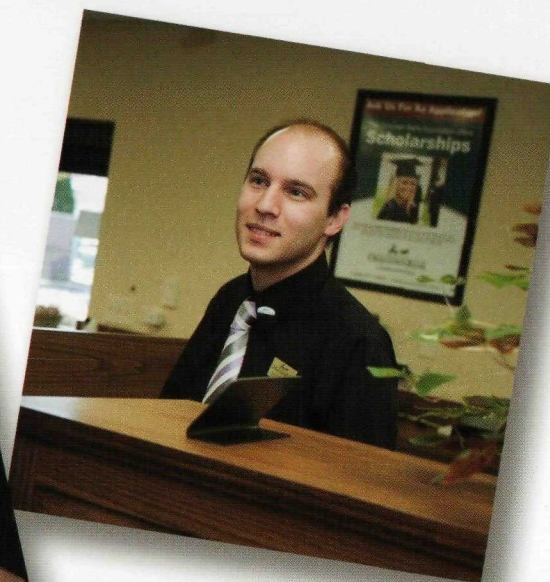
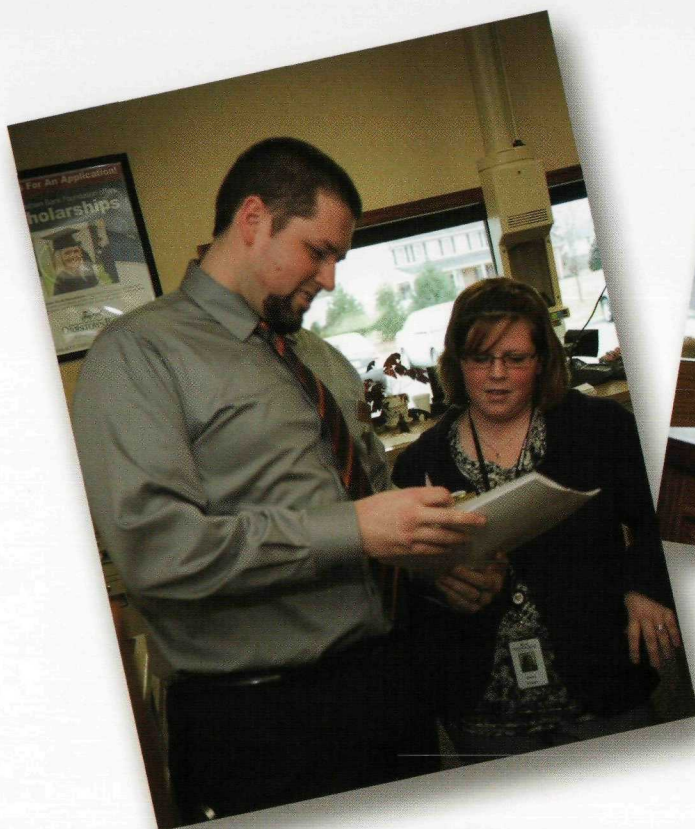
**Thomas R. Quinn, Jr.**  
President and  
Chief Executive Officer

**Mark G. Bayer**  
Vice President  
Director of Marketing

**Philip E. Fague**  
Senior Executive Vice President  
Retail, Consumer, Mortgage & Trust Business

**Terry W. Miller**  
Senior Vice President  
Special Assets Group Director





## Directors Emeriti and Advisory Councils

### Directors Emeriti

Frank S. Heberlig, William O. Hykes, Galen L. Myers,  
Raymond I. Pugh, Denver L. Tuckey, Peter C. Zimmerman

### Carlisle Advisory Council

Dr. H. Robert Davis, Mary E. Duxbury, Robert G. Frey,  
Ryan Heishman, Zane R. Highlands, William H. Kronenberg,  
H. David Miller, Jr., William M. Miller, Jr., Kenneth L. Tuckey

### Chambersburg-Greencastle Advisory Council

Thomas G. Burkey, Tammi M. Hennessy, Robert J. Hickey,  
Michael Ocker, Cheryl Plummer, G. Bryan Salzmann,  
Karen Shearer, Karl Shreiner, Fred Stenger

### Hagerstown Advisory Council

Lester A. Curry, Jason Divelbiss, George C. Harne,  
Cindy Joiner, Cynthia Moler-Sullivan, Kent Reynolds,  
David Rider, Jeanne Singer

### Shippensburg Advisory Council

John E. Clinton, Dr. Thomas Colley, Duaine A. Collier,  
Jeffrey S. Craig, Jerry S. Lyons, William E. Naugle,  
W. Mickey Nye, Stephen C. Oldt, Thomas N. Papoutsis,  
Kathy Pugh

### Perry County Advisory Council

Kermit B. Harry, Jr., Allen E. Hench, George Lyter,  
Dale E. McGuire, Robert W. Morris, II, Larry Reisinger

### West Shore Advisory Council

Mark R. Baseshore, John Bolger, Fred A. Gettys,  
John W. Gleim, Jr., Max J. Hempt, Deborah B. Keys,  
Keith A. Sealover, Richard C. Snelbaker, Richard W. Stewart,  
Lorin Stough, State Senator Patricia H. Vance,  
Glenda M. Wethington



# Office Locations

**Camp Hill**  
3045 Market Street

**Carlisle**  
22 South Hanover Street  
427 Village Drive  
2250 Spring Road  
1 Giant Lane  
Carlisle Fairgrounds

**Chambersburg**  
625 Norland Avenue  
1725 Lincoln Way East  
1355 Orchard Drive

**Duncannon**  
403 North Market Street

**Greencastle**  
308 Carolle Street

**Hagerstown, MD**  
1020 Professional Court

**Mechanicsburg**  
3 Baden Powell Lane  
1110 East Simpson Street

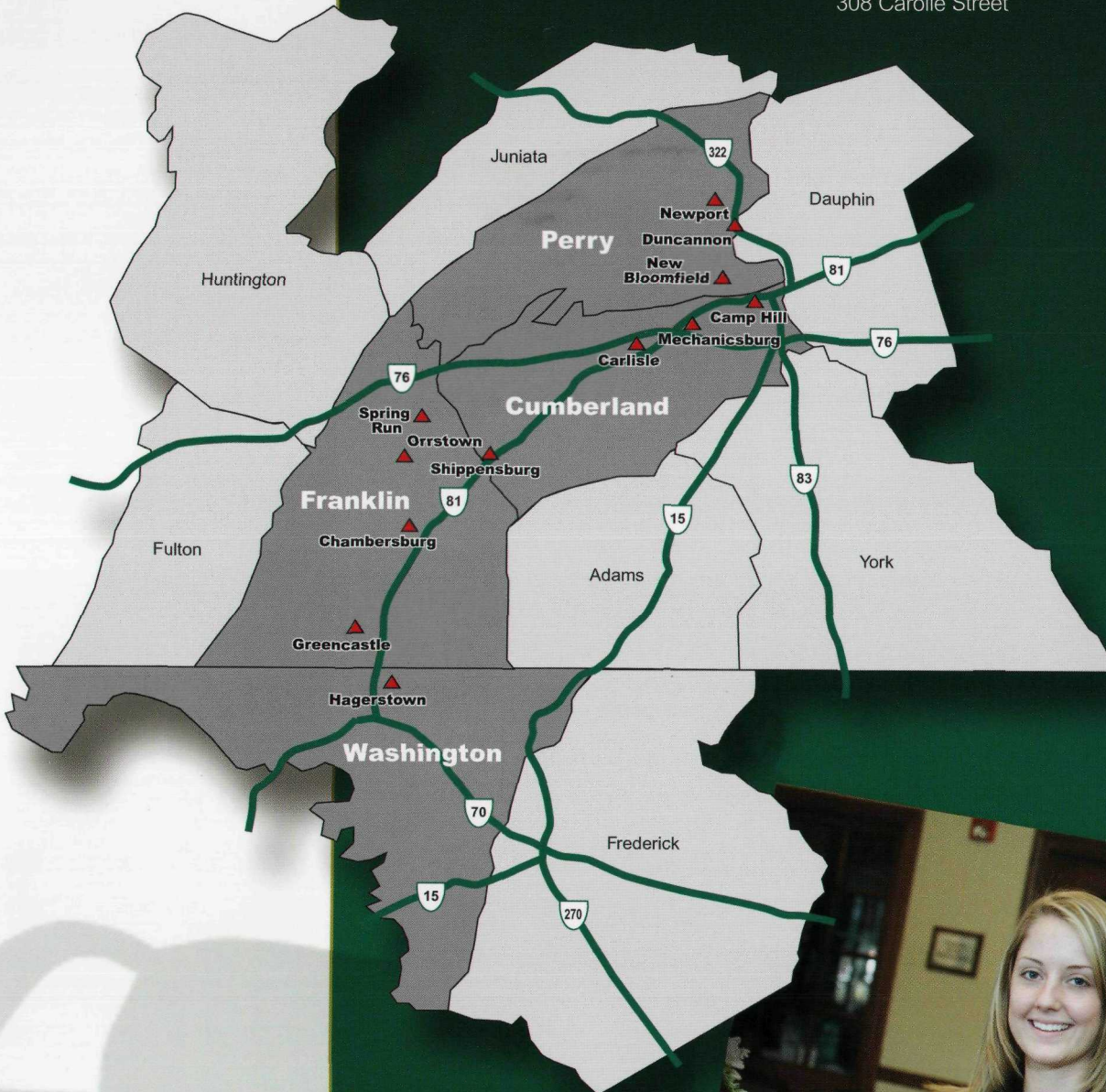
**New Bloomfield**  
1 South Carlisle Street

**Newport**  
15 North Second Street  
18 Newport Plaza

**Orrstown**  
3580 Orrstown Road

**Shippensburg**  
77 East King Street  
121 Lurgan Avenue

**Spring Run**  
16400 Path Valley Road





# Market & Investor Information

## **Market Information**

The common stock of Orrstown Financial Services, Inc. is traded on the NASDAQ Capital Market under the symbol ORRF. At the close of business December 31, 2011, there were 3,119 shareholders of record, with a total of 8,054,975 shares outstanding.

## **Investor Information**

### **Annual Meeting**

The Annual Meeting of Orrstown Financial Services, Inc. shareholders is scheduled for May 1, 2012 at 9:00 a.m. at the H. Ric Luhrs Performing Arts Center, 1871 Old Main Drive, Shippensburg, PA 17257. All shareholders are cordially invited to attend.

### **Annual and Quarterly Reports**

Copies of our Annual and Quarterly Reports may be obtained at any office of Orrstown Bank, by writing to Registrar and Transfer Company, or by contacting Robin Burnhisel, Orrstown Bank, P. O. Box 250, Shippensburg, PA 17257.

### **Form 10-K**

A copy of the Corporation's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, may be obtained by writing to Orrstown Bank, P. O. Box 250, Shippensburg, PA 17257.

The Notice of Annual Meeting of Shareholders, Proxy Statement, Annual Report on Form 10-K, and Form of Proxy are available free of charge at [www.orrstown.com](http://www.orrstown.com).

### **Transfer Agent**

The transfer agent for Orrstown Financial Services, Inc. is Registrar and Transfer Company, 10 Commerce Drive, Cranford, NJ 07016-3572. E-mail: [info@rtco.com](mailto:info@rtco.com). Website: [www.rtco.com](http://www.rtco.com). Phone: 800.368.5948.

## **Dividends**

Subject to the approval of the Board of Directors, quarterly cash dividends are paid in the months of February, May, August, and November.

## **Dividend Reinvestment Plan**

Orrstown Financial offers its shareholders the convenience of a dividend reinvestment and stock purchase plan. Shareholders may have their quarterly cash dividends automatically reinvested in additional shares of common stock and may also make voluntary cash investments in amounts not less than \$100 nor more than \$2,500 each quarter. For more information, please contact our transfer agent or write to Robin Burnhisel, Orrstown Bank, P. O. Box 250, Shippensburg, PA 17257.

## **Market Makers**

### **Stifel, Nicolaus & Company, Inc.**

2000 Oxford Drive, Suite 605  
Bethel Park, PA 15102  
866.253.0500

### **Boenning & Scattergood, Inc.**

Four Tower Bridge  
200 Barr Harbor Drive, Suite 300  
West Conshohocken, PA 19428  
800.883.1212

### **Sandler O'Neill & Partners, L.P.**

919 Third Avenue, 6th Floor  
New York, NY 10022  
800.635.6851

### **Janney Montgomery Scott, LLC**

1801 Market Street, 10th Floor  
Philadelphia, PA 19103  
800.526.6397



Certain statements in this Annual Report may constitute "forward looking statements" under the Private Securities Litigation Reform Act of 1995, which involve risk and uncertainties. Orrstown Financial's actual results may differ significantly from the results discussed in such forward looking statements. Factors that might cause such a difference include, but are not limited to: economic conditions, competition in the geographic and business areas in which Orrstown Financial conducts its operations, fluctuations in interest rates, credit quality and government regulation.





**ORRSTOWN**  
**FINANCIAL SERVICES, INC.**  
*A Tradition of Excellence*

77 East King Street • P. O. Box 250 • Shippensburg, PA 17257  
1.888.677.7869 • [www.orrstown.com](http://www.orrstown.com)

