



ORRSTOWN
FINANCIAL SERVICES, INC.

From here. For here. For good.

ANNUAL REPORT TWENTY TWELVE



Table of Contents

<i>Letter to shareholders</i>	2
<i>Financial highlights</i>	4
<i>Board of Directors</i>	6
<i>Executive Management Team</i>	7
<i>Branch locations</i>	7
<i>Market and investor information</i>	8

Moving_____

in the right direction

To our shareholders, customers, and friends

In 2012, Orrstown Bank made significant progress addressing the challenges before us, and as we begin 2013, I am confident that we are moving in the right direction. Our top priorities last year were asset quality remediation, preservation of capital, and strengthening our management team. At the outset, we believed that if we were successful in these three areas, we would successfully position the Bank to prosper in 2013 and withstand future challenges.

Addressing loan quality issues was job number one. Deteriorating credit quality, driven by a weak economy, was the primary factor in our recent losses and subsequent suspension of shareholder dividends. We took a proactive stance, working with customers who had the ability to meet their obligations, and made difficult decisions to move certain non-performing assets out of the Bank. Problem assets declined from \$113.8 million at December 31, 2011 to \$22.9 million at December 31, 2012. This reduction of nearly 80% is the result of the dedication and hard work of many members of the Orrstown team.

Our next priority was the preservation of capital as we worked through asset quality issues and the ramifications of the enforcement actions from our primary regulators, the Pennsylvania Department of Banking and Federal Reserve Bank of Philadelphia. At year end, our capital ratios were above the regulatory-defined minimums to be considered well

capitalized, with a Tier 1 Leverage ratio of 6.8%, Tier 1 Risk Based ratio of 10.9%, and Total Risk Based capital ratio of 12.1%. In the 4th quarter of 2012, we returned to profitability, posting net income of \$1.03 million.

We also recognized the importance of strengthening our management team and made a number of key hires in 2012, not only at the executive level, but throughout the Bank.

Although we remain under formal agreements with our primary regulators, the actions cited above, along with our partnership with them and other structural improvements throughout the organization, have made us a stronger Bank.

As a result of the substantial improvements in 2012, Orrstown Bank is now looking forward and implementing a number of strategic initiatives that are designed to support consistent and sustainable earnings.

Now that many critical issues facing the Bank have been mitigated, and the local economy appears to be showing signs of improvement, responsible growth of the balance sheet is a top priority. Jeffrey Seibert, Chief Operating Officer, and his team will be focusing in two primary areas. The first is the growth and diversification of the commercial loan portfolio. Secondly, we have enhanced our retail franchise to better deliver a full range of financial solutions to current and prospective customers.

The branch system will be improved to deliver small business lending across our market, as a platform to further expand Orrstown Financial Advisors, our wealth management and trust services division, and to continue the growth of our mortgage business. In addition, we are also investing in alternative “e-delivery” channels to address the changing banking habits of many of our current and future customers.

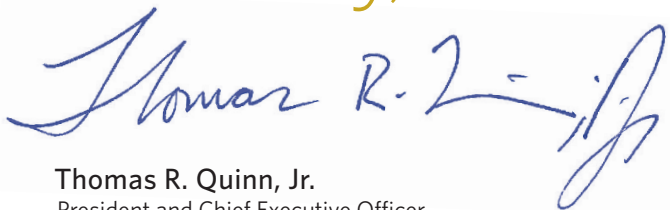
Overshadowed in 2012 by local economic issues and credit quality concerns was the outstanding performance of Orrstown Financial Advisors and our mortgage business unit, both led by Philip Fague. Orrstown Financial Advisors posted record revenue in 2012 and in January 2013 surpassed the benchmark of \$1 billion in assets under management. In addition, Orrstown Financial Advisors received national recognition for the quality of its programs and overall performance. The Mortgage Group closed more than \$120 million in residential mortgages last year, helping more families realize the dream of home ownership or enabling them to make their current mortgage more affordable.

Expense containment is also a high priority in 2013. Led by our Board of Directors, “Operation Bottom Line” has established a goal of \$5 million in expense reduction over the next two years and the majority of those cost savings have already been identified. Investments in technology are expected to allow us to achieve efficiencies throughout the organization and enable us to decrease the costs associated with non-revenue producing activities while redirecting capital to those areas with the greatest rate of return.

Clearly, 2012 was a year of great change, and in 2013, your Company will take further steps to meet and exceed the needs of our current customers and deliver financial services to those who do not yet bank with us. What is not changing, however, is our commitment to our shareholders and the communities we serve.

The loyalty of our shareholders, customers and employees during the recent tough times has been a critical component in Orrstown Bank’s turnaround, and I am deeply appreciative of your unwavering support. The Board of Directors, management team and more than 350 employees are working diligently to ensure sustainable profitability and the restoration of dividends as soon as we’re in a position to do so.

Sincerely,



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



Thomas R. Quinn, Jr.

Financial Results

consolidated financial statements

Total Assets in millions

2008	\$1,051.8
2009	\$1,196.4
2010	\$1,511.7
2011	\$1,444.1
2012	\$1,232.7

Basic Net Income (loss) per share

2008	\$2.04
2009	\$2.09
2010	\$2.18
2011	(\$3.98)
2012	(\$4.77)

Shareholders' Equity in millions

2008	\$103.3
2009	\$110.9
2010	\$160.5
2011	\$128.2
2012	\$87.7

Return on Average Equity

2008	13.20%
2009	12.48%
2010	11.22%
2011	(20.33%)
2012	(35.22%)

Cash Dividends per share

2008	\$0.87
2009	\$0.88
2010	\$0.89
2011	\$0.69
2012	\$0.00

Return on Average Assets

2008	1.38%
2009	1.19%
2010	1.21%
2011	(2.11%)
2012	(2.84%)

Financial Highlights for the Years Ended December 31

(Dollars in thousands, except per share data)	2012	2011
For the Years Ended December 31		
Interest income	\$45,436	\$60,361
Interest expense	7,548	10,754
Net interest income	37,888	49,607
Provision for loan losses	48,300	58,575
Noninterest income (excluding securities gains)	18,438	20,396
Noninterest expense (excluding impairment of goodwill)	43,349	41,032
Goodwill impairment charge	0	19,447
Pre-tax income (loss)	(30,499)	(42,827)
Income tax expense (benefit)	7,955	(10,863)
Net income (loss)	(38,454)	(31,964)
At Year End		
Assets	\$1,232,668	\$1,444,097
Loans	711,601	967,993
Deposits	1,085,039	1,216,902
Repurchase agreements	9,650	15,013
Shareholders' equity	87,694	128,197
Trust and brokerage assets under management	992,378	947,273
Per share data		
Net income (loss) - basic	\$(4.77)	\$(3.98)
Net income (loss) - diluted	(4.77)	(3.98)
Cash dividends	0.00	0.69
Book value at year end	10.85	15.92
Tangible book value at year end ¹	10.75	15.79
Performance statistics		
Return on average equity	(35.22%)	(20.33%)
Return on average assets	(2.84%)	(2.11%)
Equity / assets at year end	7.11%	8.88%

¹ Tangible book value, a non-GAAP financial measure, is computed by dividing shares outstanding into tangible common equity. Management uses tangible book value per share because it believes such ratio is useful in understanding the Company's capital position and ratios. A reconciliation of book value per share to tangible book value per share is set forth below.

(Dollars in thousands, except per share data)	2012	2011
Shareholders' equity	\$87,694	\$128,197
Less: Intangible assets	832	1,041
Tangible equity	\$86,862	\$127,156
Book value per share	\$10.85	\$15.92
Less: Intangible assets per share	\$0.10	\$0.13
Tangible book value per share	\$10.75	\$15.79

Board of Directors *(Pictured from left to right)*

JOHN S. WARD

Former President, Modern Transit Partnership
Retired Mechanical Engineer, Carlisle SynTec, Inc.
and Carlisle Tire and Wheel
Retired Chief Clerk of Cumberland County

MARK K. KELLER

State Representative 86th District

ANTHONY F. CEDDIA

Visiting Professor, various institutions
President Emeritus, Shippensburg University
Leadership and Management Consultant

GREGORY A. ROSENBERRY

President and General Partner,
Rosenberry Family Limited Partnership
President and Owner, Tri-Valley Forestry, Inc.
Director, Secretary and Shareholder,
Rosenberry Brothers Lumber, Inc.

JEFFREY W. COY

Vice Chairman
Former Commissioner, PA Gaming Control Board—2005-2011
Former State Representative 89th District—1983-2004

THOMAS R. QUINN, JR.

President and Chief Executive Officer
Orrstown Financial Services, Inc.

JOEL R. ZULLINGER

Chairman
An attorney with Zullinger-Davis, PC

ANDREA PUGH

President and Sole Member, PharmCare Consultants LLC

FLOYD E. STONER

Senior Advisor - Consultant, Alliance Partners
Former EVP of Congressional Relations and Public Policy,
American Bankers Association

GLENN W. SNOKE

President, Snoke's Excavating & Paving, Inc.



Executive Officers *(Pictured from left to right)*

JEFFREY M. SEIBERT

Executive Vice President, Chief Operating Officer

DAVID D. KEIM

Executive Vice President, Chief Risk Officer

THOMAS R. QUINN, JR.

President and Chief Executive Officer

PHILIP E. FAGUE, CPA

Executive Vice President, Trust and Mortgage Officer

DAVID P. BOYLE

Executive Vice President, Chief Financial Officer

BENJAMIN W. WALLACE

Executive Vice President, Operations and Technology



Directors Emeriti

Frank S. Heberlig

William O. Hykes

Galen L. Myers

Raymond I. Pugh

Kenneth R. Shoemaker

Denver L. Tuckey

Peter C. Zimmerman

Banking 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

1020 Professional Court

MECHANICSBURG

3 Baden Powell Lane

1110 East Simpson Street

NEWPORT

15 North 2nd Street

18 Newport Plaza

NEW BLOOMFIELD

1 South Carlisle Street

ORRSTOWN

3580 Orrstown Road

SHIPPENSBURG

77 East King Street

121 Lurgan Avenue

SPRING RUN

16400 Path Valley Road



Updating our Shareholders

market and 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 on December 31, 2012, there were 3,097 shareholders of record, with a total of 8,079,599 shares outstanding.

Investor Information

ANNUAL MEETING

The Annual Meeting of Orrstown Financial Services, Inc. shareholders is scheduled for April 30, 2013 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 David Boyle, Orrstown Bank, P. O. Box 250, Shippensburg, PA 17257.

FORM 10-K

A copy of the Corporation's Annual Report on Form 10-K for the year-ended December 31, 2012, 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 <http://www.cfpproxy.com/5772/>

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. Website: www.rtco.com. Phone: 800.368.5948.

Cautionary Note Regarding Forward-looking Statements

Certain statements in this Annual Report may constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, predictions, expectations, or beliefs about events or results or otherwise are not statements of historical fact, including statements related to successfully positioning Orrstown Bank to prosper in 2013, withstanding future challenges, supporting consistent and sustainable earnings, rewarding our shareholders, growth of our balance sheet, growth and diversification of our loan portfolio, further expansion of Orrstown Financial Advisors, continuing the growth of our mortgage business, expense containment and reduction, meeting and exceeding the needs of our current and future customers, and ensuring sustainable profitability. Actual results and trends could differ materially from those set forth in such statements and there can be no assurances that we will successfully position Orrstown Bank to prosper in 2013, withstand future challenges, support consistent and sustainable earnings, reward our shareholders, grow our balance sheet, grow and diversify of our loan portfolio, further expand Orrstown Financial Advisors, continue to grow our mortgage business, contain or reduce expenses, meet or exceed the needs of our current and future customers, or achieve sustainable profitability. Factors that could cause actual results to differ from those expressed or implied by the forward-looking statements include, but are not limited to, the following: ineffectiveness of Orrstown Financial Services, Inc.'s business strategy due to changes in current or future market conditions; the effects of competition, including industry consolidation and development of competing financial products and services; changes in laws and regulations, including the Dodd-Frank Wall Street Reform and Consumer Protection Act; interest rate movements; changes in credit quality; inability to raise capital under favorable conditions, volatilities in the securities markets; and deteriorating economic conditions, and other risks and uncertainties, including those detailed in Orrstown Financial Services, Inc.'s Form 10-K for the fiscal year ended December 31, 2012, and other filings made with the Securities and Exchange Commission. The statements are valid only as of the date hereof and Orrstown Financial Services, Inc. disclaims any obligation to update this information. Accordingly, the review period for subsequent events extends up to and including the filing date of a public company's financial statements, when filed with the Securities and Exchange Commission. Accordingly, the consolidated financial information presented in this announcement is subject to change.

With approximately \$1.2 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.



ORRSTOWN
FINANCIAL SERVICES, INC.

From here. For here. For good.

1.888.677.7869 | www.orrstown.com |  /OrrstownBank  /OrrstownBank

© 2013 by Orrstown Financial Services, Inc.