# 2015 | ANNUAL REPORT ORRSTOWN Financial Services, Inc.

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(Dollars in thousands, except per share data) 2015	2014
FOR THE YEARS ENDED DECEMBER 31	
• Interest income	\$ 38,183
• Interest expense	4,159
• Net interest income	34,024
• Provision for loan losses	(3,900)
Noninterest income (excluding securities gains)	16,919
• Securities gains	1,935
• Noninterest expenses	43,768
• Pre-tax income	13,010
Income tax expense (benefit)	(16,132)
• Net income	29,142

AT YEAR END		
• Assets \$ 1,292,816	\$ 1,190,443	
• Loans	704,946	
• Deposits	949,704	
Repurchase agreements	21,742	
Shareholders' equity	127,265	
Trust and brokerage assets under management 966,362	1,017,013	

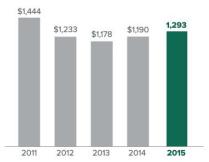
# PER SHARE DATA \$ 3.59 3.59 15.40

PERFORMANCE STATISTICS	
• Return on average equity 5.99%	28.78%
Return on average assets	2.48%
Equity / assets at year end	10.69%

With nearly \$1.3 billion in assets, Orrstown Financial Services, Inc. and it's wholly-owned subsidiary, Orrstown Bank, provide a full range of consumer and business financial services through 22 locations in Cumberland, Franklin, Lancaster and Perry Counties, Pennsylvania and Washington under the symbol ORRF.

# FINANCIAL RESULTS

CONSOLIDATED FINANCIAL STATEMENTS



TOTAL ASSETS IN MILLIONS







# To our Shareholders, Customers, and Friends:

In 2015 we exited all formal enforcement actions, restored our quarterly cash dividend, and continued transitioning our efforts to revenue growth while maintaining an appropriate risk management perspective. In 2016 our primary focus is on growing revenue through multiple initiatives, including the investment in customer-facing sales professionals, to leverage the infrastructure we have built over the past several years.

Last year saw an acceleration of bank consolidation in our region with four significant, and several smaller, transactions announced or consummated. This disruption presents opportunities for Orrstown Bank similar to those the Company took advantage of beginning in the mid-1980s. I believe our ability to be realistic, disciplined, nimble, and to remain grounded by a pervasive enterprise risk management culture, will enable us to capitalize on the recent market turmoil.

At last year's annual shareholders meeting I highlighted several keys to success in 2015 and I would like to report on some our results:

- We discussed the importance of maintaining our enterprise risk management focus as we grew the organization and I believe we continued to successfully maintain an appropriate risk tolerance level as evidenced by the termination of all formal enforcement actions and solid asset quality metrics.
- We said we wanted to achieve consistent organic loan growth. In 2015 we grew our commercial, consumer, and mortgage lending businesses, increasing the loan portfolio by 10.9%.
- We knew we needed to be prepared to take advantage of market disruption that had already occurred or that was anticipated. We continue to hire top performers throughout the region to complement our existing sales professionals and look forward to the positive impact of our newest team members.
- ✓ In 2015 we began measuring product and service penetration at the household level with specific goals and expectations. We are placing additional emphasis on enhancing the Orrstown Bank culture and will increase our investments in learning and development to ensure our employees are knowledgeable and prepared to meet and exceed customer expectations.
- ✓ We said it would be important to leverage technology, actionable data, and alternative delivery channels to attract new customers to Orrstown Bank and we continued to invest in those areas in 2015. One early measure of our success is related to customers who opened accounts online using either a personal computer or mobile device. The results in 2015 were comparable to many of our physical branches and we expect this trend to accelerate going forward. Additionally, our mobile platform had its second consecutive year of triple digit growth and we continued to optimize our platforms to meet customer expectations and monetize our investments.

As we look toward the last three quarters of 2016 and beyond, growth of deposits and success in increasing non-interest income will become increasingly important.

Growth of our revenue producing business lines, Orrstown Financial Advisors and the Mortgage Bankina Unit. will also be critical to our overall success.

In support of these 2016 initiatives we recently announced a new financial services hub on Market Street in Camp Hill, Pennsylvania and the purchase of a regional office in Dauphin County, Pennsylvania. Both locations will be fully operational this summer allowing us to more effectively deliver a full range of financial products and services in desirable markets. We plan to continue expanding over the next several years, opening new financial service facilities in Lancaster, Dauphin, and York Counties.

Consumers' habits and preferences continue to evolve and we must adapt quickly. I am proud to work with a Board of Directors and management team that is supportive and innovative as I believe the banking industry is in the midst of a paradigm shift which requires new and different ways of thinking about our business model.

Finally I would like to welcome our two newest board members, Cindy J. Joiner and Thomas D. Longenecker. On behalf of the Board of Directors, the Management team, and 300 plus employees of Orrstown Bank, thank you for your continued loyalty and support.

Sincerely,

Thomas R. Quinn, Jr.

President and Chief Executive Office

# **ACCOLADES**

## **BEST OF CARLISLE**

Orrstown Bank named the **#1 Bank** and **Best of Carlisle** by the readers of the Carlisle Sentinel

# **BEST OF SHIPPENSBURG**

Orrstown Bank named #1 Bank, #1 Mortgage Lender, and Best of Shippensburg by the readers of the Shippensburg Sentinel

## LOCAL FINANCIAL LEADERS

Paul Ritchie, Financial Advisor, was recognized as one of Harrisburg Magazine's **Local Financial Leaders** of 2015

# PROGRAM OF THE YEAR

Orrstown Financial Advisors was honored with the **Program** of the **Year** award by BAR Financial

# 5 STAR AWARD

Orrstown Bank received a 5-Star rating by BauerFinancial,

# UNITED WAY SPIRIT AWARD

Orrstown Bank was recognized with the Spirit Award by the United Way of Franklin County for our work in reaching out to local businesses on behalf of the United Way

Left to right: Jason Crider, Evelyn Coldsmith, and Lekha Patel of Orrstown's Norland Avenue branch in Chambersburg with Amy Hicks, Executive Director of United Way of Franklin County.





Orrstown's Chief Information Security Officer, Andrew Linn, takes questions from members of the press in San Francisco following his presentation at a conference on IT solutions in Sectember.

# ORRSTOWN EXPERTS RECRUITED TO SHARE BEST PRACTICES AT NATIONAL EVENTS

Members of the Orrstown Bank team don't typically spend the day in Los Angeles, Las Vegas, or Boston, but we did in 2015.

The Orrstown team was asked to present information on best practices to other companies across the nation including:

- · Janna Passamonte, Senior Vice President of Operations
- · Jeff Deppen, Senior Vice President and Chief Information Officer
- Andrew Linn, Senior Vice President and Chief Information Security Officer (above)
- · Chris Thompson, Senior Vice President and Chief (IT) Architect
- Ben Wallace, Executive Vice President of Operations and Technology

"We've always been a community-based bank, so we're helpful by nature," said Ben Wallace, Orrstown's Executive Vice President of Operations and Technology.

"That's why it's such an honor to be invited to share our expertise with companies all around the country in addition to those in our own neighborhoods," he added.



# NEW CHECKING & HOME EQUITY LINE OF CREDIT PRODUCTS

In 2015, we streamlined our checking account offerings for personal banking. The project included the development of two new checking accounts that show our commitment to providing personalized service to our customers.

Relationship Premier Checking earns interest, refunds all ATM fees for customers, and gives them a free safe deposit box and free checks.

Interest Checking earns interest and allows four free ATM uses at non-Orrstown ATMs each month.

We also launched a new home equity line of credit called **SmartLock**\*\*. It gives you the flexibility to use the equity in your home to have cash on hand when you need it. Plus, as you make payments, the money becomes available again in your line of credit.



# NEW WEBSITE MAKES BANKING EASIER

Orrstown Bank launched a new website in February that was designed to make banking easier.

New features include retirement calculators, videos to explain investment options, a find-a-home tool, and new ways to interact with the bank.

"Online banking has evolved beyond the basics of online bill-pay and checking your balance. Today, our customers want to learn and compare.

They want information to be available quickly and easily, so that's what guided our new design." — Shashi Korithiwada, Orrstown Bank's Technology Director.



# TRANSFORMING "ON-THE-SPOT" SERVICE

Throughout the year, we reinvigorated the Orrstown Bank brand to embrace a wider audience while staying true to our values of providing friendly service and personal attention.

It's the visual representation of who we are as a company and what we promise to our customers, employees, and shareholders. The minor updates to the graphics and logo reflect our customer-first perspective and our commitment to being friendly, helpful, and informative.



During the ribbon-cutting ceremony for our new Lancaster branch, Orrstown Bank presented a \$10,000 gift to Schreiber Pediatric Rehab Center of Lancaster County.

# NEW BRANCH OPENS IN LANCASTER

In July 2015, we opened a full-service branch at 2098 Spring Valley Rd. in Lancaster just north of the intersection of Route 30 and Rohrerstown Road. The branch provides personal and business banking services including mortgages and loans.

This branch marked one of our first steps in our strategy to expand into markets that are rich with opportunity for community banks like ours who value friendly, personal service.

### 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, 2015, there were approximately 2,975 shareholders of record, with a total of 8,272,591 shares outstanding.

### INVESTOR INFORMATION

Annual Meeting: The Annual Meeting of Shareholders of Orrstown Financial Services, Inc. is scheduled for May 3, 2016, at 9 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 investors.orrstown.com, by writing to Continental Stock Transfer & Trust, or by contacting Investor Relations, Orrstown Bank, PO Box 250, Shippensburg, PA 17257.

Form 10-K: A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission, may be obtained by writing to Orrstown Bank, PO Box 250, Shippensburg, PA 17257. The Notice of the Annual Meeting of Shareholders, Proxy Statement, Annual Report on Form 10-K and Form of Proxy are available free of charge at www.cstproxy.com/orrstown/2016.

Transfer Agent: The transfer agent for Orrstown Financial Services, Inc. is Continental Stock Transfer & Trust Company, Orrstown Financial Services Inc. – Investor Services, 17 Battery Place – 8th Floor, New York. N 10004. Phone: 1-800-509-5586.

# CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this annual report may contain forward-looking statements as defined in 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 facts, including, without limitation, statements related to our ability to continue transitioning efforts to revenue growth while maintaining appropriate risk management; our ability to grow revenues through investments in sales professionals and leverage of our infrastructure; opportunities will be created from market disruption; our ability to realistic, disciplined, nimble and grounded by pervasive risk management culture will allow us to capitalize on recent turmoil; our hiring of top performers in the region; additional emphasis on enhancing the culture and investments in learning and development to ensure our sales force is knowledgeable and prepared to meet or exceed customer expectations; ability to optimize our platforms to meet customer expectations and monetize our investments; deposit growth will be needed to fund expected loan portfolio expansion; growth in revenues from business lines will be critical to our success; our ability to deliver a full range of financial products to desirable markets; and our continued expansion plans with new facilities in Lancaster, Dauphin, and York counties. Actual results and trends could differ materially from those set forth in such statements and there can be no assurances that we will be able to continue transition efforts to revenue growth while maintaining appropriate risk management; grow revenues through investments in sales professionals and leverage of our infrastructure; opportunities will be created from market disruption; capitalize on recent turmoil; hire top performers in the region; meet or exceed customer expectations by providing additional emphasis on enhancing culture and investments in learning and development; optimize our platforms to meet customer expectations and monetize our investments; fund expected loan portfolio expansion with deposit growth; grow business lines will ensure success; to deliver a full range of financial products to desirable markets; continue our expansion plans into Lancaster, Dauphin and York counties, Factors that could cause actual results to differ from those expressed or implied by the forward looking statement include, but are not limited to, the following: ineffectiveness of the Company'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 regulation, including the Dodd-Frank Wall Street Reform and Consumer Protection Act; interest rate movements; changes in credit quality; inability to raise capital, if necessary, under favorable conditions; volatilities in the securities markets; deteriorating economic conditions; and other risk and uncertainties, including those detained in Orrstown Financial Services, Inc.'s Form 10-K for the year ended December 31, 2015 under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" and in 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.

ORRSTOWN FINANCIAL SERVICES, INC.

# **BOARD OF DIRECTORS**



JOEL R. ZULLINGER Chairman, Orrstown Financial Services, Inc. Attorney, Zullinger-Davis-Trihn, PC



JEFFREY W. COY Vice Chairman, Orrstown Financial Services, Inc. Former Commissioner, PA Gaming Control Board — 2005-2011 Former State Representative 89th District - 1983-2004



DR. ANTHONY F. CEDDIA Secretary, Orrstown Financial Services, Inc. President Emeritus, Shippensburg University Visiting Professor, various institutions Leadership and Management Consultant



THOMAS R. QUINN, JR. President and Chief Executive Officer, Orrstown Financial



CINDY J. JOINER, CPA Chief Financial Officer, The Bowman Group, LLP



MARK K. KELLER State Representative 86th District



THOMAS D. LONGENECKER ANDREA PUGH Chief Operating Officer. wealth Connections Academy Adjunct Professor at

Shippensburg University and Wilkes University



President and Sole Member PharmCare Consultants LLC



President and General Partner. Rosenberry Family Limited Partnership

President and Owner, Tri-Valley Forestry, Inc. Director, Secretary, and Shareholder, Rosenberry Brothers Lumber, Inc.



GREGORY A. ROSENBERRY ERIC A. SEGAL Managing Director, head of the Banking and Financial Institutions Group, CFO Consulting Partners LLC & Paving, Inc.



GLENN W. SNOKE President, Snoke's Excavating



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

# **EXECUTIVE OFFICERS**



DAVID P. BOYLE Executive Vice President, Chief Financial Officer



BARBARA E. BROBST Executive Vice President, Chief Human Resources Officer



ROBERT G. CORADI Executive Vice President,



PHILIP E. FAGUE, CPA Executive Vice President, Trust and Mortgage Officer



JEFFREY S. GAYMAN Executive Vice President, Retail Banking and Consumer Lending



BENJAMIN W. WALLACE, JD 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** 

JOHN S. WARD PETER C. ZIMMERMAN