

ORRSTOWN FINANCIAL SERVICES INC

Form 424B3

July 30, 2018

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**Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-226098**

July 25, 2018

Dear Stockholder:

**Your vote is very important.**

You are invited to attend a special meeting of stockholders (the special meeting ) of Mercersburg Financial Corporation to be held on September 11, 2018, at 10:00 a.m., local time, at the Mercersburg American Legion Post 517, 100 Keefer Drive, Mercersburg, Pennsylvania. The special meeting is being held to approve, among other things, the merger of Mercersburg Financial Corporation with Orrstown Financial Services, Inc. (the merger ) pursuant to the Agreement and Plan of Merger (the merger agreement ) by and between Orrstown Financial Services, Inc. and Mercersburg Financial Corporation dated as of May 31, 2018. In connection with the merger agreement, Mercersburg Financial Corporation will be merged with and into Orrstown Financial Services, and its subsidiary, First Community Bank of Mercersburg will be merged with and into Orrstown Bank, a subsidiary of Orrstown Financial Services.

Pursuant to the merger agreement, if the merger agreement is approved by the holders of at least 60% of the shares of Mercersburg Financial Corporation common stock outstanding and entitled to vote at the special meeting and the merger is subsequently completed, each outstanding share of common stock, no par value per share, of Mercersburg Financial Corporation ( Mercersburg Financial Corporation common stock ) will be converted into the right to receive at the election of the holder thereof either (1) \$40.00 in cash, without interest, or (2) 1.5291 shares of common stock, no par value per share, of Orrstown Financial Services ( Orrstown Financial Services common stock ), subject to proration to ensure that in the aggregate 85% of Mercersburg Financial Corporation common stock will be converted to Orrstown Financial Services common stock and the remaining 15% of Mercersburg Financial Corporation common stock will be converted to cash. Orrstown Financial Services common stock is traded on NASDAQ under the symbol ORRF.

No fractional shares of Orrstown Financial Services common stock will be issued in connection with the merger. Instead, each Mercersburg Financial Corporation stockholder will receive an amount of cash, in lieu of any fractional share, based on the average daily closing price of Orrstown Financial Services common stock as reported on NASDAQ for the ten consecutive trading day period ending on the fifth business day prior to the closing date of the merger, rounded to the nearest whole cent.

The exchange ratio was determined based on the volume weighted average stock price of Orrstown Financial Services common stock for the 15 consecutive trading days ending on May 29, 2018 (the measurement period ), which was \$26.16 per share, which would have resulted in Mercersburg Financial Corporation stockholders receiving Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$40.00. Based on the closing price of Orrstown Financial Services common stock of \$27.00 per share on July 24, 2018, the most recent practicable date prior to the mailing of this proxy statement/prospectus, Mercersburg Financial Corporation stockholders would receive Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$41.09 (assuming each stockholder of Mercersburg Financial Corporation receives merger consideration consisting of 85% Orrstown Financial Services common stock and 15% cash).

Mercersburg Financial Corporation has the right to terminate the merger agreement if the volume weighted average stock price of Orrstown Financial Services common stock as reported on NASDAQ for the 15 consecutive trading days immediately preceding the date on which all required regulatory and stockholder approvals have been obtained (the determination date ) is less than \$20.928 per share and Orrstown Financial Services common stock underperforms the NASDAQ Bank Index by more than 20% between May 29, 2018 and the determination date. If Mercersburg Financial Corporation exercises this termination right, Orrstown Financial Services will have the option to increase the amount of Orrstown Financial Services common stock to be provided to Mercersburg Financial Corporation stockholders to an amount which, when multiplied by the volume weighted average price of Orrstown Financial Services common stock as reported on NASDAQ for the fifteen consecutive trading days immediately preceding the day on which all required regulatory and stockholder approvals have been obtained, equals the lesser of (1) \$40.00 or (2) \$40.00 multiplied by the index ratio set forth in the merger agreement. If Orrstown Financial Services elects to increase the stock consideration pursuant to the preceding sentence, no termination will occur.

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After careful consideration, our board of directors unanimously approved the merger agreement and determined that the transactions provided for in the merger agreement are advisable to, and in the best interests of, Mercersburg Financial Corporation. Our board of directors unanimously recommends that you vote **FOR** approval of the merger agreement and **FOR** the adjournment proposal, if necessary, as discussed in the attached proxy statement/prospectus.

**Your vote is important, regardless of the number of shares of Mercersburg Financial Corporation common stock you own.** We cannot complete the merger unless the merger agreement is approved by the affirmative vote of the holders of at least 60% of the shares of Mercersburg Financial Corporation common stock outstanding and entitled to vote at the special meeting.

The attached proxy statement/prospectus provides you with detailed information about the special meeting, the merger agreement and the merger. A copy of the merger agreement is attached as *Annex A* to the proxy statement/prospectus. We encourage you to read the proxy statement/prospectus and the merger agreement carefully and in their entirety, including the section titled Risk Factors, beginning on page 23. **Whether or not you expect to attend the special meeting in person, we urge you to submit a completed proxy as promptly as possible. You may submit your completed proxy by voting online at [www.investorvote.com/MCBG](http://www.investorvote.com/MCBG), by mail in the enclosed postage-paid envelope, or by voting by telephone at 1-800-652-VOTE (8683). If your shares are held in the name of a broker, bank or other nominee, please follow the instructions on the voting instruction form furnished to you by your broker, bank or other nominee. Do not send your stock certificates with the proxy card. You will receive an election form with instructions for delivering your stock certificates under separate cover.**

On behalf of our board of directors, thank you for your continued support and interest in Mercersburg Financial Corporation. We look forward to seeing you at the special meeting.

Sincerely,

William E. Sanders, Jr.  
*Chairman of the Board*  
Mercersburg Financial Corporation

Robert J. Fignar  
*President and Chief Executive Officer*  
Mercersburg Financial Corporation

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger, the issuance of the Orrstown Financial Services common stock in connection with the merger or the other transactions described in this proxy statement/prospectus, or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.**

**The securities to be issued in connection with the merger are not savings accounts, deposits or other obligations of any bank or savings association and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

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The proxy statement/prospectus is dated July 25, 2018, and is first being mailed to stockholders of Mercersburg Financial Corporation on or about July 31, 2018.

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**MERCERSBURG FINANCIAL CORPORATION**

**12 South Main Street**

**Mercersburg, Pennsylvania 17236**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON SEPTEMBER 11, 2018**

To the Stockholders of Mercersburg Financial Corporation:

A special meeting of stockholders of Mercersburg Financial Corporation will be held at the Mercersburg American Legion Post 517, 100 Keefer Drive, Mercersburg, Pennsylvania, on September 11, 2018 at 10:00 a.m., local time, for the following purposes:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger by and between Orrstown Financial Services, Inc. and Mercersburg Financial Corporation dated as of May 31, 2018 (the merger agreement ), pursuant to which Mercersburg Financial Corporation will merge with and into Orrstown Financial Services, whereupon the separate corporate existence of Mercersburg Financial Corporation will cease (the merger );
2. To consider and vote upon a proposal to approve one or more adjournments of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting, or at any adjournment or postponement of that meeting, to approve the merger agreement; and
3. To consider and act upon such other matters as may properly come before the special meeting or any adjournment or postponement of that meeting.

The merger agreement and the proposed merger of Mercersburg Financial Corporation with and into Orrstown Financial Services is more fully described in the attached proxy statement/prospectus, which you should read carefully and in its entirety before voting. A copy of the merger agreement is included as *Annex A* to the attached proxy statement/prospectus.

Mercersburg Financial Corporation has established July 23, 2018 as the record date for determining the stockholders entitled to notice of and to vote at the Mercersburg Financial Corporation special meeting. Only record holders of Mercersburg Financial Corporation common stock as of the close of business on that date will be entitled to vote at the Mercersburg Financial Corporation special meeting or any adjournment or postponement of that meeting. The affirmative vote of the holders of at least 60% of the shares of Mercersburg Financial Corporation common stock outstanding and entitled to vote at the special meeting is required to approve the merger agreement.

**Mercersburg Financial Corporation's board of directors unanimously recommends that you vote FOR approval of the merger agreement and FOR the adjournment proposal, if necessary, as described above.**

All Mercersburg Financial Corporation stockholders are cordially invited to attend the Mercersburg Financial Corporation special meeting. **To ensure your representation at the Mercersburg Financial Corporation special meeting, please follow the voting procedures described in the accompanying proxy statement/prospectus and on the enclosed proxy card.** Following these voting procedures will not prevent you from voting in person, but it will help to secure a quorum and allow your shares to be voted should anything prevent your attendance in person. Your proxy may be revoked at any time before it is voted.

BY ORDER OF THE BOARD OF DIRECTORS

Larry L. Nair  
*Secretary*

July 25, 2018

**YOUR VOTE IS IMPORTANT!**

**Whether or not you expect to attend the Mercersburg Financial Corporation special meeting in person, Mercersburg Financial Corporation urges you to submit a completed proxy as promptly as possible. You may submit your completed proxy by mail in the enclosed postage-paid envelope or by voting either online at [www.investorvote.com/MCBG](http://www.investorvote.com/MCBG) or by telephone at 1-800-652-VOTE (8683). If your shares are held in the name of a broker, bank or other nominee, please follow the instructions on the voting instruction form furnished to you by your broker, bank or other nominee. Do not send your stock certificates with the proxy card. You will receive an election form with instructions for delivering your stock certificates under separate cover.**

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**ADDITIONAL INFORMATION**

The accompanying proxy statement/prospectus incorporates by reference important business and financial information about Orrstown Financial Services from documents that are not included in or delivered with the proxy statement/prospectus. This information is publicly available at the Securities and Exchange Commission's (SEC) EDGAR website at [www.sec.gov](http://www.sec.gov) and will be made available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference in the proxy statement/prospectus by requesting them in writing or by telephone from Orrstown Financial Services at the following address and telephone number:

Orrstown Financial Services, Inc.

77 East King Street

Shippensburg, PA 17257

(888) 677-7869

Attn: Investor Relations

**If you would like to request documents, please do so by September 6, 2018 in order to receive them before the special meeting of Mercersburg Financial Corporation stockholders.**

For a more detailed description of the information incorporated by reference in the accompanying proxy statement/prospectus and how you may obtain it, see the section of the proxy statement/prospectus titled "Where You Can Find More Information" beginning on page 99.

The accompanying proxy statement/prospectus provides a detailed description of the merger and the merger agreement. We urge you to read the proxy statement/prospectus, including any documents incorporated by reference into the proxy statement/prospectus, and its annexes carefully and in their entirety. If you have any questions concerning the merger, the other meeting matters or the proxy statement/prospectus, or need assistance voting your shares, please contact Robert J. Fignar, President and Chief Executive Officer, at (717) 328-3121.

**Please do not send your Mercersburg Financial Corporation stock certificates at this time. You will be sent separate instructions regarding the surrender of your Mercersburg Financial Corporation stock certificates.**

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**QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING**

The following questions and answers are intended to address briefly some commonly asked questions regarding the merger and the special meeting. These questions and answers may not address all questions that may be important to you as a stockholder. To more fully understand the merger and the special meeting, you should read this entire proxy statement/prospectus, including the materials attached as annexes, as well as the documents that have been incorporated by reference into this proxy statement/prospectus.

Unless the context otherwise requires, throughout this proxy statement/prospectus, we, us and our refer collectively to Mercersburg Financial Corporation, First Community Bank of Mercersburg, Orrstown Financial Services, and Orrstown Bank. Also, we refer to the merger of Mercersburg Financial Corporation and Orrstown Financial Services, as the merger ; and the Agreement and Plan of Merger, dated as of May 31, 2018, by and between Orrstown Financial Services and Mercersburg Financial Corporation, as the merger agreement.

**Q: Why am I receiving this proxy statement/prospectus?**

A: Orrstown Financial Services and Mercersburg Financial Corporation have agreed to the merger of Mercersburg Financial Corporation with and into Orrstown Financial Services under the terms of a merger agreement that is described in this proxy statement/prospectus. A copy of the merger agreement is attached to this proxy statement/prospectus as *Annex A*. In order to complete the merger, Mercersburg Financial Corporation stockholders must vote to approve the merger agreement. Mercersburg Financial Corporation will hold a special meeting of holders of its common stock to obtain this required approval. This proxy statement/prospectus contains important information about the merger, the merger agreement, the Mercersburg Financial Corporation special meeting, and other related matters, and you should read it carefully. The enclosed voting materials for the Mercersburg Financial Corporation special meeting allow you to vote your shares of Mercersburg Financial Corporation common stock without attending the special meeting of Mercersburg Financial Corporation.

We are delivering this proxy statement/prospectus to you as the proxy statement for the special meeting of stockholders of Mercersburg Financial Corporation and the prospectus for the shares of Orrstown Financial Services common stock to be issued in connection with the merger. It is a proxy statement because the Mercersburg Financial Corporation board of directors is soliciting proxies from stockholders to vote on the approval of the merger agreement and your proxy will be used at the special meeting or at any adjournment or postponement of the special meeting. It is a prospectus because Orrstown Financial Services will issue Orrstown Financial Services common stock to the Mercersburg Financial Corporation stockholders who receive stock consideration in the merger, and this prospectus contains information about Orrstown Financial Services common stock.

**Q: Why are Orrstown Financial Services and Mercersburg Financial Corporation proposing this transaction? (pages 46 and 60)**

A: The Orrstown Financial Services and Mercersburg Financial Corporation boards of directors have each approved the merger agreement and have determined that the merger agreement and the transactions provided for thereunder, including the merger, are advisable and in the best interests of the companies. In reaching these decisions, the Orrstown Financial Services and Mercersburg Financial Corporation boards of directors considered

the terms and conditions of the merger agreement and the ancillary agreements, as well as a number of other factors.

**Q: What will happen in the merger? (page 64)**

A: In the proposed merger, Mercersburg Financial Corporation will merge with and into Orrstown Financial Services. The surviving corporation in the merger will be Orrstown Financial Services. It is anticipated that First Community Bank of Mercersburg will merge with and into Orrstown Bank, with Orrstown Bank continuing as the surviving bank, immediately following the merger.

**Q: What will Mercersburg Financial Corporation stockholders receive in the merger? (page 64)**

A: Pursuant to the merger agreement, if the merger agreement is approved by the holders of at least 60% of the shares of Mercersburg Financial Corporation common stock outstanding and entitled to vote at the special meeting and the merger is subsequently completed, each outstanding share of Mercersburg Financial Corporation common stock will be converted into the right to receive at the election of the holder

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thereof either (1) \$40.00 in cash, without interest, or (2) 1.5291 shares of common stock, no par value per share, of Orrstown Financial Services ( Orrstown Financial Services common stock ), subject to proration to ensure that in the aggregate 85% of Mercersburg Financial Corporation common stock will be converted to Orrstown Financial Services common stock and the remaining 15% of Mercersburg Financial Corporation common stock will be converted to cash. Orrstown Financial Services common stock is traded on NASDAQ under the symbol ORRF.

You may elect to receive all cash, all Orrstown Financial Services common stock, or a combination of both cash and Orrstown Financial Services common stock in exchange for your shares of Mercersburg Financial Corporation common stock. However, the ability to receive all cash, all stock, or a combination of each will depend on the elections of other Mercersburg Financial Corporation stockholders. The allocation of the consideration payable to Mercersburg Financial Corporation stockholders in the merger will not be known until Orrstown Financial Services tallies the results of the elections made by Mercersburg Financial Corporation stockholders, which will not occur until immediately prior to the closing of the merger.

The exchange ratio was determined based on the volume weighted average stock price of Orrstown Financial Services common stock for the 15 consecutive trading days ending on May 29, 2018 (the measurement period ), which was \$26.16 per share, which would have resulted in Mercersburg Financial Corporation stockholders receiving Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$40.00. Based on the closing price of Orrstown Financial Services common stock of \$27.00 per share on July 24, 2018, the most recent practicable date prior to the mailing of this proxy statement/prospectus, Mercersburg Financial Corporation stockholders would receive Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$41.09 (assuming each stockholder of Mercersburg Financial Corporation receives merger consideration consisting of 85% Orrstown Financial Services common stock and 15% cash). The following table presents the implied value per share to be received in exchange for each share of Mercersburg Financial Corporation common stock if the stock price of Orrstown Financial Services common stock at the closing of the merger is equal to the prices set forth in the table.

## Illustrative

Orrstown Financial Services		Implied Value Per Share of	
Stock Price at Closing	Exchange Ratio	Mercersburg Financial Corporation common stock <sup>(1)</sup>	
\$25.00	1.5291	\$38.49	
\$25.50	1.5291	\$39.14	
\$26.00	1.5291	\$39.79	
\$26.16	1.5291	\$40.00	
\$26.50	1.5291	\$40.44	
\$27.00	1.5291	\$41.09	
\$27.50	1.5291	\$41.74	

(1) Assumes each stockholder of Mercersburg Financial Corporation receives merger consideration consisting of 85% Orrstown Financial Services common stock and 15% cash.

Mercersburg Financial Corporation has the right to terminate the merger agreement if the volume weighted average stock price of Orrstown Financial Services common stock as reported on NASDAQ for the 15 consecutive trading days immediately preceding the date on which all required regulatory and stockholder approvals have been obtained

(the determination date ) is less than \$20.928 per share and Orrstown Financial Services common stock underperforms the NASDAQ Bank Index by more than 20% between May 29, 2018 and the determination date. If Mercersburg Financial Corporation exercises this termination right, Orrstown Financial Services will have the option to increase the amount of Orrstown Financial Services common stock to be provided to Mercersburg Financial Corporation stockholders to an amount which, when multiplied by the volume weighted average price of Orrstown Financial Services common stock as reported on NASDAQ for the fifteen consecutive trading days immediately preceding the determination date, equals the lesser of (1) \$40.00 or (2) \$40.00 multiplied by the index ratio. The index ratio is the ratio obtained by dividing (1) the volume weighted average of the daily volume weighted price of the Nasdaq Bank Index for the fifteen consecutive trading days immediately preceding the determination date by (2) the volume weighted average of the daily volume weighted price of the Nasdaq Bank Index for the measurement period. If Orrstown Financial Services elects to increase the stock consideration pursuant to the preceding sentence, no termination will occur. In such case, you would receive Orrstown Financial Services common stock and, if applicable, cash with an implied value equal to the minimum implied value that would have avoided triggering the termination right described above. See the section of this proxy statement/prospectus titled "The Merger Agreement Termination" beginning on page 73.

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**Q: How many shares of Orrstown Financial Services common stock will be issued to Mercersburg Financial Corporation stockholders in the merger? (page 41)**

A: Subject to the terms of the merger agreement, 85% of the merger consideration will be paid in the form of Orrstown Financial Services common stock. As of July 23, 2018, there were 810,080 shares of Mercersburg Financial Corporation common stock issued and outstanding. Based upon these numbers, approximately 1,052,890 shares of Orrstown Financial Services conversion stock will be issued to Mercersburg Financial Corporation shareholders in the merger. This will result in current Orrstown Financial Services stockholders owning approximately 88.8% of the combined company and Mercersburg Financial Corporation stockholders owning approximately 11.2% of the combined company.

**Q: Will Mercersburg Financial Corporation stockholders receive the form of consideration they elect? (page 64)**

A: The form of merger consideration you actually receive may differ from the form of consideration that you elect to receive. This is because the consideration to be received by each Mercersburg Financial Corporation stockholder will be subject to allocation procedures that are intended to ensure that 85% of the shares of Mercersburg Financial Corporation common stock outstanding immediately prior to the effective time of the merger will be converted into shares of Orrstown Financial Services common stock, and the remaining shares of Mercersburg Financial Corporation common stock will be converted into cash.

**Q: Will Mercersburg Financial Corporation stockholders receive any fractional share of Orrstown Financial Services common stock as part of the merger consideration? (page 64)**

A: No. Orrstown Financial Services will not issue any fractional shares of Orrstown Financial Services common stock in the merger. Instead, Orrstown Financial Services will pay you the cash value of a fractional share measured by the average daily closing price of Orrstown Financial Services common stock as reported on NASDAQ for the ten consecutive trading day period ending on the fifth business day prior to the closing date, rounded to the nearest whole cent.

**Q: How do Mercersburg Financial Corporation stockholders make an election as to the form of merger consideration they wish to receive? (page 65)**

A: No later than seven business days after the date of the special meeting (or such other date as Orrstown Financial Services and Mercersburg Financial Corporation shall mutually agree), an election form and letter of transmittal for the surrender of your Mercersburg Financial Corporation stock certificates in exchange for the merger consideration will be mailed to you. You will also receive detailed instructions describing the procedures you must follow to make your election.

We are not making any recommendation to you as to whether you should elect to receive cash, shares of Orrstown Financial Services common stock, or a combination of each in the merger. You should evaluate your own specific



circumstances and investment preferences in making your election.

**Q: Can Mercersburg Financial Corporation stockholders elect to receive the merger consideration in the form of cash with respect to a portion of their Mercersburg Financial Corporation shares and Orrstown Financial Services common stock with respect to the rest of their Mercersburg Financial Corporation shares? (page 65)**

A: The election form and letter of transmittal will permit you, subject to the allocation procedures described in this proxy statement/prospectus, to receive at your election:

all of your merger consideration in the form of cash;

all of your merger consideration in the form of shares of Orrstown Financial Services common stock; or

a portion of your merger consideration in cash and the remaining portion in shares of Orrstown Financial Services common stock.

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**Q: Do Mercersburg Financial Corporation stockholders have to return the election form and letter of transmittal? (page 65)**

A: No, but if you do not do so by the election deadline, you will be allocated cash and/or shares of Orrstown Financial Services common stock depending entirely upon the elections made by other Mercersburg Financial Corporation stockholders.

**Q: What will happen to shares of Orrstown Financial Services common stock in the merger?**

A: Nothing. Each share of Orrstown Financial Services common stock outstanding will remain outstanding as a share of Orrstown Financial Services common stock.

**Q: What are the material federal income tax consequences of the merger to Mercersburg Financial Corporation stockholders? (page 87)**

A: In general, if you exchange all of your shares of Mercersburg Financial Corporation common stock for shares of Orrstown Financial Services common stock, you will not recognize either gain or loss for federal income tax purposes on such exchange, except to the extent you receive cash in lieu of fractional shares of Orrstown Financial Services common stock. If you exchange all of your shares of Mercersburg Financial Corporation common stock for cash, you generally will recognize gain or loss for federal income tax purposes in an amount equal to the difference between the amount of cash received and your adjusted tax basis in your shares of Mercersburg Financial Corporation common stock. If you exchange some of your shares of Mercersburg Financial Corporation common stock for cash, you generally will recognize gain, but not loss, for federal income tax purposes in an amount equal to the lesser of (1) the amount of cash you receive in the merger, or (2) the amount, if any, by which the sum of the fair market value, as of the effective time of the merger, of any shares of Orrstown Financial Services common stock that you receive, and the amount of cash you receive in the merger, exceeds your adjusted tax basis in your shares of Mercersburg Financial Corporation common stock. Generally, any gain recognized upon the exchange will be capital gain, and any such capital gain will be long-term capital gain if you have established a holding period of more than one year for your shares of Mercersburg Financial Corporation common stock. Depending on certain facts specific to you, any gain could instead be characterized as ordinary dividend income.

**Please carefully review the information set forth in the section titled *Material Federal Income Tax Consequences* beginning on page 87 for a description of the material federal income tax consequences of the merger. This tax treatment may not apply to all Mercersburg Financial Corporation stockholders. We strongly urge you to consult your own tax advisor for a full understanding of the tax consequences of the merger to you, as the tax consequences will depend upon each stockholder's own situation.**

**Q: What are the conditions to completion of the merger? (page 71)**

A:

The obligations of Orrstown Financial Services and Mercersburg Financial Corporation to complete the merger are subject to the satisfaction or waiver of certain closing conditions contained in the merger agreement, including the receipt of required regulatory approvals, tax opinions and the requisite approval by Mercersburg Financial Corporation stockholders.

**Q: When do you expect the merger to be completed? (page 64)**

A: We will complete the merger when all of the conditions to completion contained in the merger agreement are satisfied or waived. Some of these conditions, such as the receipt of required regulatory approvals, are not entirely within our control. We currently expect to complete the merger in the fourth quarter of 2018; however, because the merger is subject to these conditions, we cannot predict the actual timing.

**Q: What Mercersburg Financial Corporation stockholder approvals are required to complete the merger? (page 36)**

A: The affirmative vote of the holders of at least 60% of the shares of Mercersburg Financial Corporation common stock outstanding and entitled to vote at the special meeting is required to approve the merger agreement.

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**Q: Are there any Mercersburg Financial Corporation stockholders already committed to voting in favor of the merger agreement? (page 86)**

A: Yes. Mercersburg Financial Corporation's directors and certain executive officers as of the date of the merger agreement entered into voting agreements with Orrstown Financial Services requiring them to vote all of their shares in favor of approval of the merger agreement. These stockholders collectively held approximately 5.1% of the outstanding shares of Mercersburg Financial Corporation common stock on the record date.

**Q: When and where is the special meeting? (page 36)**

A: The special meeting of Mercersburg Financial Corporation stockholders will be held on September 11, 2018 at the Mercersburg American Legion Post 517, 100 Keefer Drive, Mercersburg, Pennsylvania at 10:00 a.m., local time.

**Q: What will happen at the special meeting? (page 36)**

A: At the Mercersburg Financial Corporation special meeting, Mercersburg Financial Corporation stockholders will consider and vote upon a proposal to approve the merger agreement. If, at the time of the special meeting, there are not sufficient votes to approve the merger agreement, we may ask you to consider and vote upon a proposal to adjourn the special meeting, so that we can solicit additional proxies.

**Q: Who can vote at the special meeting? (page 36)**

A: Holders of record of Mercersburg Financial Corporation common stock at the close of business on July 23, 2018, which is the record date for the Mercersburg Financial Corporation special meeting, are entitled to vote at the Mercersburg Financial Corporation special meeting.

**Q: Does the Mercersburg Financial Corporation board of directors recommend voting in favor of the merger agreement and the merger?**

A: Yes. After careful consideration, the Mercersburg Financial Corporation board of directors unanimously recommends that Mercersburg Financial Corporation stockholders vote **FOR** approval of the merger agreement and **FOR** the adjournment proposal, if necessary.

**Q: Are there any risks that stockholders should consider in deciding whether to vote for approval of the proposals?**

A: Yes. You should read and carefully consider the risk factors set forth in the section of this proxy statement/prospectus titled **Risk Factors** beginning on page 23 as well as the other information contained in or incorporated by reference into this proxy statement/prospectus, including the matters addressed in the section of this proxy statement/prospectus titled **Special Note Regarding Forward-Looking Statements** on page 29.

**Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner of shares held in street name ?**

A. If your shares are registered directly in your name with our transfer agent, Computershare, you are considered the stockholder of record with respect to those shares. As a stockholder of record, you may vote at the special meeting or vote by proxy by one of the methods described below. If your shares are held in an account by a broker, bank or other nominee (the record holder of your shares), then you are the beneficial owner of shares held in street name. As the beneficial owner, you have the right to direct your record holder how to vote your shares of common stock, and the record holder is required to vote your shares of common stock in accordance with your instructions.

**Q: How may I vote my shares for the special meeting proposals presented in this proxy statement/prospectus? (page 36)**

A: Holders of record of Mercersburg Financial Corporation common stock may vote:

***Over the Internet.*** You may vote online by going to the website of our tabulator, Computershare, at [www.investorvote.com/MCBG](http://www.investorvote.com/MCBG). Have your proxy card in hand when you access the website and follow the instructions to vote your shares. You must submit your Internet proxy before 12:00 a.m., Eastern Time, on September 11, 2018, the day of the special meeting, for your proxy to be valid and your vote to count.

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**By Mail.** You may vote by completing, signing, dating and returning the proxy card in the enclosed postage-paid envelope. Computershare must receive your mailed proxy before 12:00 a.m., Eastern Time, on September 11, 2018, the day of the special meeting, for your proxy to be valid and your vote to count.

**By Telephone.** You may vote by telephone by calling 1-800-652-VOTE (8683). Have your proxy card in hand when you call and then follow the instructions to vote your shares. You must submit your telephonic proxy before 12:00 a.m., Eastern Time, on September 11, 2018, the day of the special meeting, for your proxy to be valid and your vote to count.

**Q: If my shares are held in street name by my broker, bank or other nominee, will my broker, bank or other nominee automatically vote my shares for me? (page 37)**

A: No. Your broker, bank or other nominee **will not** vote your shares unless you provide instructions to your broker, bank or other nominee on how to vote. It is important that you provide timely instruction to your broker, bank or other nominee to ensure that all shares of Mercersburg Financial Corporation common stock that are voted at the applicable special meeting. You should follow the voter instruction form sent to you by your broker, bank or other nominee with this proxy statement/prospectus explaining how you can vote.

**Q: What if I fail to submit a proxy or to instruct my broker, bank or other nominee to vote my shares? (page 37)**

A: If you fail to submit a proxy or to instruct your broker, bank or other nominee to vote your shares, your shares will not be voted. This will have the same effect as a vote against the proposals.

**Q: What do I need to do now?**

A: You should carefully read and consider the information contained or incorporated by reference into this proxy statement/prospectus, including its annexes. This proxy statement/prospectus contains important information about the merger, the merger agreement, Orrstown Financial Services and Mercersburg Financial Corporation including the historical financial information set forth in the sections of this proxy statement/prospectus titled Selected Historical Financial Data beginning on page 20. After you have read and considered this information, Mercersburg Financial Corporation stockholders are requested to submit a proxy by one of the methods described above in advance of the special meeting. Whether or not you plan to attend the special meeting in person, you are encouraged to vote as soon as possible so that your shares of common stock will be represented and voted at the special meeting. The proxy card will instruct the persons named on the proxy card to vote your shares at the special meeting as you direct. If you sign and send in a proxy card and do not indicate how you wish to vote, the proxy will be voted **FOR** all of the special meeting proposals.

**Q: What should I do if I receive more than one set of voting materials?**

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, if you hold your Mercersburg Financial Corporation shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold Mercersburg Financial Corporation shares. Please complete, sign, date and return each proxy card and voting instruction card that you receive, or otherwise follow the voting instructions set forth on the proxy card and voting instruction card.

**Q: Can I attend the special meeting and vote my shares in person? (page 36)**

A: Yes. Although the Mercersburg Financial Corporation board of directors requests that you vote your shares by proxy by one of the methods described above in advance of the special meeting, all Mercersburg Financial Corporation stockholders are invited to attend the Mercersburg Financial Corporation special meeting. Mercersburg Financial Corporation stockholders of record on July 23, 2018 may vote in person at the Mercersburg Financial Corporation special meeting. If your shares are held by a broker, bank or other nominee, then you are not the holder of record and you must contact your broker, bank or other nominee who holds your shares to obtain a broker's proxy card and bring it with you to the special meeting, along with a bank or brokerage statement or a letter from your nominee evidencing your beneficial ownership of our stock and a form of personal identification. A broker's proxy is not the form of proxy enclosed with this proxy statement/prospectus.

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**Q: Can I change my vote after I have submitted a proxy? (page 38)**

A: Yes. If you do not hold your shares in street name, there are three ways you can change your vote at any time after you have submitted your proxy and before your proxy is voted at the special meeting:

You may file a written revocation of the proxy with the Secretary of Mercersburg Financial Corporation, Larry L. Nair, 12 South Main Street, Mercersburg, Pennsylvania 17236;

You may submit a new signed proxy card by mail bearing a later date, or by submitting a new vote over the Internet or by telephone (any earlier proxies will be revoked automatically); or

You may attend the special meeting and vote in person provided that you are the holder of record of your shares and have filed a written revocation of your grant of proxy with the Secretary of Mercersburg Financial Corporation as indicated above.

If you hold your shares in street name and have instructed a broker, bank or other nominee to vote your shares, you must follow the directions you receive from your broker, bank or other nominee to change your vote.

**Q: What happens if I sell my shares after the record date but before the special meeting?**

A: The record date for the special meeting is earlier than both the date of the special meeting and the date that the merger is expected to be completed. If you are a Mercersburg Financial Corporation stockholder and you sell or otherwise transfer your Mercersburg Financial Corporation shares after the record date but before the date of the Mercersburg Financial Corporation special meeting, you will retain your right to vote at the Mercersburg Financial Corporation special meeting, but you will transfer the right to receive the merger consideration to the person to whom you transferred your shares. In order to receive the merger consideration, you must hold your shares through completion of the merger.

**Q: Do Mercersburg Financial Corporation stockholders have the right to dissent and obtain the fair market value of their shares? (page 38)**

A: Yes. Under Pennsylvania law, Mercersburg Financial Corporation stockholders have the right to dissent from the merger agreement and to receive a payment in cash for the fair value of their shares of Mercersburg Financial Corporation common stock as determined by an appraisal process. This value may be more or less than the value you would receive in the merger if you do not dissent. If you dissent, you will receive a cash payment for the value of your shares that will be fully taxable to you. To perfect your dissenters' rights, you must follow precisely the required statutory procedures set forth in Chapter 15, Subchapter D of the Pennsylvania Business Corporation Law. Chapter 15, Subchapter D of the Pennsylvania Business Corporation Law is attached as *Annex B* to this proxy statement. Please read it carefully.



**Q: Should Mercersburg Financial Corporation stockholders send in their stock certificates now? (page 40)**

A: No. You will receive separate written instructions for surrendering your shares of Mercersburg Financial Corporation common stock in exchange for the merger consideration. In the meantime, you should retain your stock certificate(s) because they are still valid. **Please do not send in your stock certificate(s) with your proxy card.**

**Q: Whom should I call with questions?**

A: If you have questions about the merger or the special meeting, or if you need additional copies of this proxy statement/prospectus or the enclosed proxy card, Mercersburg Financial Corporation stockholders should contact Robert J. Fignar, President and Chief Executive Officer, at (717) 328-3121.

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**Q: Where can I find more information about Orrstown Financial Services?**

A: You can find more information about Orrstown Financial Services from the various sources described in the section of this proxy statement/prospectus titled "Where You Can Find More Information" beginning on page 99.

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**SUMMARY**

This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. To more fully understand the merger and for a more complete description of the legal terms of the merger, you should read this entire document, including the materials attached as annexes, as well as the other documents to which we have referred you. See the section of this proxy statement/prospectus titled "Where You Can Find More Information" beginning on page 99. The page references in parentheses included in this summary will direct you to a more detailed description of each topic presented.

**The Companies**

***Orrstown Financial Services, Inc. and Orrstown Bank (page 30)***

Orrstown Financial Services, Inc., a Pennsylvania corporation, is the holding company for its wholly-owned subsidiaries Orrstown Bank and Wheatland Advisors, Inc. Orrstown Financial Services' principal executive offices are located at 77 East King Street, Shippensburg, Pennsylvania, 17257, with additional executive and administrative offices at 4750 Lindle Road, Harrisburg, Pennsylvania, 17111. Orrstown Financial Services was organized on November 17, 1987, for the purpose of acquiring Orrstown Bank and such other banks and bank-related activities as are permitted by law and desirable. Orrstown Financial Services provides banking and bank-related services through banking offices located in south-central Pennsylvania, principally in Berks, Cumberland, Dauphin, Franklin, Lancaster, Perry, and York Counties and in Washington County, Maryland. Wheatland Advisors was acquired in December 2016 and provides services as a registered investment advisor through its office in Lancaster County, Pennsylvania.

Orrstown Bank was originally organized in 1919 as a state-chartered bank. On March 8, 1988, in a bank holding company reorganization transaction, Orrstown Financial Services acquired 100% ownership of Orrstown Bank.

Orrstown Financial Services' primary activity consists of owning and supervising its subsidiaries, Orrstown Bank and Wheatland Advisors. Day-to-day management is conducted by officers of Orrstown Bank. Orrstown Financial Services has historically derived most of its income through dividends from Orrstown Bank. At March 31, 2018, Orrstown Financial Services had total assets of \$1.6 billion, total stockholders' equity of \$142.6 million, and total deposits of \$1.3 billion.

Orrstown Financial Services has no employees. Its nine officers are employees of Orrstown Bank. On March 31, 2018, Orrstown Bank and Wheatland combined had 335 full-time and 15 part-time employees.

Orrstown Bank is engaged in commercial banking and trust business as authorized by the Pennsylvania Banking Code of 1965. This involves accepting demand, time and savings deposits, and granting loans. Orrstown Bank holds commercial, residential, consumer and agribusiness loans primarily in its market areas of Cumberland, Dauphin, Franklin, Lancaster and Perry Counties in Pennsylvania and Washington County in Maryland; and in contiguous counties. Orrstown Bank maintains a diversified loan portfolio and evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Orrstown Bank upon the extension of credit, is based on management's credit evaluation of the customer pursuant to collateral standards established in Orrstown Bank's credit policies and procedures.

Wheatland Advisors was acquired to supplement Orrstown Bank's trust and wealth management group and to provide opportunities for future growth in these areas.

***Mercersburg Financial Corporation (page 30)***

Mercersburg Financial Corporation is the holding company for First Community Bank of Mercersburg, an independent community bank founded in 1909. First Community Bank of Mercersburg has six locations in the communities of Mercersburg, Fort Loudon, Greencastle, Chambersburg and Scotland, Pennsylvania. First Community Bank of Mercersburg is dedicated to offering services and products that meet the needs of its customers while providing a fair stockholder return and a strong commitment to the local communities in which it serves.

At March 31, 2018, Mercersburg Financial Corporation had total consolidated assets of approximately \$184.0 million, loans of approximately \$148.6 million, deposits of approximately \$159.9 million and stockholders equity of approximately \$21.1 million.

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Mercersburg Financial Corporation's principal executive offices are located at 12 South Main Street, Mercersburg, Pennsylvania 17236, and its telephone number is (717) 328-3121.

## **The Special Meeting**

### ***Date, Time and Place of the Mercersburg Financial Corporation Special Meeting (page 36)***

The special meeting of stockholders of Mercersburg Financial Corporation will be held at the Mercersburg American Legion Post 517, 100 Keefer Drive, Mercersburg, Pennsylvania, on September 11, 2018 at 10:00 a.m., local time.

### ***Actions to be Taken at the Mercersburg Financial Corporation Special Meeting (page 36)***

At the Mercersburg Financial Corporation special meeting, Mercersburg Financial Corporation's stockholders as of July 23, 2018, the record date, will be asked to vote upon a proposal to approve the merger agreement and, if necessary, a proposal to approve one or more adjournments of the Mercersburg Financial Corporation special meeting.

### ***Recommendation of the Mercersburg Financial Corporation Board of Directors (page 46)***

At a meeting on May 31, 2018, the Mercersburg Financial Corporation board of directors unanimously adopted and approved the merger agreement and the transactions contemplated by the merger agreement. The Mercersburg Financial Corporation board of directors unanimously recommends that Mercersburg Financial Corporation stockholders vote **FOR** the approval of the merger agreement and the merger and **FOR** the adjournment proposal, if necessary.

### ***Record Date; Outstanding Shares; Shares Entitled to Vote (page 36)***

Only holders of record of Mercersburg Financial Corporation common stock at the close of business on the record date of July 23, 2018 are entitled to notice of and to vote at the Mercersburg Financial Corporation special meeting. As of the record date, there were 810,080 shares of Mercersburg Financial Corporation common stock outstanding, held of record by approximately 425 stockholders.

### ***Quorum; Vote Required (page 36)***

A quorum of Mercersburg Financial Corporation stockholders is necessary to hold a valid meeting. If the holders of at least a majority of the shares of Mercersburg Financial Corporation common stock entitled to vote are represented in person or by proxy at the special meeting, a quorum will exist. Mercersburg Financial Corporation will include proxies marked as abstentions as present at the meeting in determining the presence of a quorum at the special meeting.

The affirmative vote of the holders of at least 60% of the shares of Mercersburg Financial Corporation common stock outstanding and entitled to vote at the special meeting is required to approve the merger agreement. The affirmative vote of a majority of the shares of Mercersburg Financial Corporation present and voting at the special meeting is required to approve the proposal to adjourn the special meeting.

### ***Share Ownership of Mercersburg Financial Corporation Management; Voting Agreements (page 40)***

In connection with the merger agreement, Mercersburg Financial Corporation's directors and certain executive officers executed voting agreements with Orrstown Financial Services under which they agreed to vote their shares in favor of

the merger. As of the record date, there were 41,598 shares of Mercersburg Financial Corporation common stock, or approximately 5.1% of the outstanding shares, subject to the voting agreements.

***Proxies, Voting and Revocation (page 36)***

The Mercersburg Financial Corporation board of directors requests that you vote your shares by proxy per the instructions in this proxy statement/prospectus. All proxies properly delivered prior to the Mercersburg Financial Corporation special meeting and not revoked before the vote at the Mercersburg Financial Corporation special meeting will be voted at the Mercersburg Financial Corporation special meeting according to the instructions indicated on the proxies or, if no instructions are given, to approve the merger agreement and the merger and the adjournment proposal. If you abstain, fail to submit a proxy or to vote in person at the Mercersburg Financial Corporation special meeting, or do not provide your broker, bank or other nominee with instructions, as applicable, your shares of Mercersburg Financial Corporation common stock will not be voted on the proposals, which will have the same effect as a vote against the merger proposal but will have no effect on any proposal to adjourn or postpone the meeting.

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You may revoke your proxy at any time by taking any of the following actions before your proxy is voted at the special meeting:

Filing a written revocation of the proxy with the Secretary of Mercersburg Financial Corporation, Larry L. Nair, 12 South Main Street, Mercersburg, Pennsylvania 17236;

Submitting a new signed proxy card by mail bearing a later date, or by submitting a new vote over the Internet or by telephone (any earlier proxies will be revoked automatically); or

Attending and voting in person at the Mercersburg Financial Corporation special meeting provided you are the holder of record of your shares and have filed a written revocation of your grant of proxy with the Secretary of Mercersburg Financial Corporation as indicated above.

### ***Dissenters Rights (page 38)***

Under Pennsylvania law, Mercersburg Financial Corporation stockholders have the right to dissent from the merger agreement and to receive a payment in cash for the fair value of their shares of Mercersburg Financial Corporation common stock as determined by an appraisal process. This value may be more or less than the value you would receive in the merger if you do not dissent. If you dissent, you will receive a cash payment for the value of your shares that will be fully taxable to you. To perfect your dissenters rights, you must follow precisely the required statutory procedures set forth in Chapter 15, Subchapter D of the Pennsylvania Business Corporation Law. Chapter 15, Subchapter D of the Pennsylvania Business Corporation Law is attached as *Annex B* to this proxy statement. Please read it carefully.

## **The Merger**

### ***Structure of the Merger (page 64)***

Orrstown Financial Services and Mercersburg Financial Corporation entered into the merger agreement on May 31, 2018. The merger agreement provides for the merger of Mercersburg Financial Corporation with and into Orrstown Financial Services. The surviving corporation in the merger will be Orrstown Financial Services. It is anticipated that First Community Bank of Mercersburg will merge with and into Orrstown Bank, with Orrstown Bank continuing as the surviving bank, immediately following the merger.

The proposed merger will occur following approval of the proposal to approve the merger agreement by the stockholders of Mercersburg Financial Corporation and satisfaction or waiver of all other conditions to the merger, including regulatory approvals. The merger agreement is attached to this document as *Annex A*. We encourage you to read the merger agreement in its entirety because it is the legal document that governs the merger.

### ***Merger Consideration for Mercersburg Financial Corporation Stockholders (page 64)***

If the merger agreement is approved by the holders of at least 60% of the shares of Mercersburg Financial Corporation common stock outstanding and entitled to vote at the special meeting and the merger is subsequently completed, each outstanding share of Mercersburg Financial Corporation common stock will be converted into the right to receive at the election of the holder thereof either (1) \$40.00 in cash, without interest, or (2) 1.5291 shares of Orrstown Financial

Services common stock, subject to proration to ensure that in the aggregate 85% of Mercersburg Financial Corporation common stock will be converted to Orrstown Financial Services common stock and the remaining 15% of Mercersburg Financial Corporation common stock will be converted to cash.

No fractional shares of Orrstown Financial Services common stock will be issued in connection with the merger. Instead, each Mercersburg Financial Corporation stockholder will receive an amount of cash, in lieu of any fractional share, based on the average daily closing price of Orrstown Financial Services common stock as reported on NASDAQ for the ten consecutive trading day period ending on the fifth business day prior to the closing date of the merger, rounded to the nearest whole cent.



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The exchange ratio was determined based on the volume weighted average stock price of Orrstown Financial Services common stock for the measurement period, which was \$26.16 per share, which would have resulted in Mercersburg Financial Corporation stockholders receiving Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$40.00. Based on the closing price of Orrstown Financial Services common stock of \$27.00 per share on July 24, 2018, the most recent practicable date prior to the mailing of this proxy statement/prospectus, Mercersburg Financial Corporation stockholders would receive Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$41.09 (assuming each stockholder of Mercersburg Financial Corporation receives merger consideration consisting of 85% Orrstown Financial Services common stock and 15% cash). The following table presents the implied value per share to be received in exchange for each share of Mercersburg Financial Corporation common stock if the stock price of Orrstown Financial Services common stock at the closing of the merger is equal to the prices set forth in the table.

## Illustrative

Orrstown Financial Services		Implied Value Per Share of	
Stock Price at Closing	Exchange Ratio	Mercersburg Financial Corporation common stock <sup>(1)</sup>	
\$25.00	1.5291	\$38.49	
\$25.50	1.5291	\$39.14	
\$26.00	1.5291	\$39.79	
\$26.16	1.5291	\$40.00	
\$26.50	1.5291	\$40.44	
\$27.00	1.5291	\$41.09	
\$27.50	1.5291	\$41.74	

- (1) Assumes each stockholder of Mercersburg Financial Corporation receives merger consideration consisting of 85% Orrstown Financial Services common stock and 15% cash.

Mercersburg Financial Corporation has the right to terminate the merger agreement if the volume weighted average stock price of Orrstown Financial Services common stock as reported on NASDAQ for the 15 consecutive trading days immediately preceding the determination date, is less than \$20.928 per share and Orrstown Financial Services common stock underperforms the NASDAQ Bank Index by more than 20% between May 29, 2018 and the determination date. If Mercersburg Financial Corporation exercises this termination right, Orrstown Financial Services will have the option to increase the amount of Orrstown Financial Services common stock to be provided to Mercersburg Financial Corporation stockholders to an amount which, when multiplied by the volume weighted average price of Orrstown Financial Services common stock as reported on NASDAQ for the fifteen consecutive trading days immediately preceding the determination date, equals the lesser of (1) \$40.00 or (2) \$40.00 multiplied by the index ratio. If Orrstown Financial Services elects to increase the stock consideration pursuant to the preceding sentence, no termination will occur. In such case, you would receive Orrstown Financial Services common stock and, if applicable, cash with an implied value equal to the minimum implied value that would have avoided triggering the termination right described above. See the section of this proxy statement/prospectus titled "The Merger Agreement Termination" beginning on page 73.

As of July 23, 2018, there were 810,080 shares of Mercersburg Financial Corporation common stock issued and outstanding. Based upon these numbers, assuming that 85% of the merger consideration will be paid in the form of Orrstown Financial Services common stock, this will result in current Orrstown Financial Services stockholders

owning approximately 88.8% of the combined company and Mercersburg Financial Corporation stockholders owning approximately 11.2% of the combined company.

***Election Procedures for Mercersburg Financial Corporation Stockholders (page 65)***

The shares of Mercersburg Financial Corporation common stock that you hold will be exchanged for cash, Orrstown Financial Services common stock, or a combination of cash and Orrstown Financial Services common stock as chosen by you, subject to the allocation and proration procedures described in the merger agreement. No later than twenty business days prior to the anticipated closing date of the merger (or such other date as Orrstown Financial Services and Mercersburg Financial Corporation shall mutually agree), you will be sent an election form and detailed instructions to permit you to choose your preferred consideration. You will have the following choices:

you may elect to receive \$40.00 per share in cash, without interest (the cash consideration ), in exchange for all shares of Mercersburg Financial Corporation common stock that you hold;

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you may elect to receive 1.5291 shares of Orrstown Financial Services common stock (the stock consideration ) in exchange for all shares of Mercersburg Financial Corporation common stock that you hold, plus cash in lieu of any fractional share.

you may elect to receive the cash consideration with respect to a portion of the shares of Mercersburg Financial Corporation common stock that you hold, and the stock consideration with respect to your remaining shares; or

you may make no election with respect to the consideration to be received by you in exchange for your shares of Mercersburg Financial Corporation common stock.

You will have a limited period of time in which to complete the election form and return it as instructed. In order to be effective, a properly completed election form must be received by the exchange agent on or before 5:00 p.m., Eastern time, on the 25th day following the mailing date of the election form to Mercersburg Financial Corporation stockholders, unless Orrstown Financial Services and Mercersburg Financial Corporation have mutually agreed to another date and time as the election deadline, which date will be publicly announced by Orrstown Financial Services as soon as practicable prior to the election deadline. You will need to surrender your Mercersburg Financial Corporation stock certificates to receive the appropriate consideration, but you should not send us any certificates now. You will receive detailed instructions on how to exchange your stock certificates along with your election form. If you do not submit an election form, you will receive instructions on where to surrender your Mercersburg Financial Corporation stock certificates after the merger is completed.

If your shares or a portion of your shares of Mercersburg Financial Corporation common stock are held in street name by a broker, bank or other nominee, an election form will be mailed to the broker, bank or other nominee with respect to those shares.

***Allocation Procedures for Mercersburg Financial Corporation Stockholders (page 67)***

Your ability to elect to receive cash or shares of Orrstown Financial Services common stock in exchange for shares of Mercersburg Financial Corporation common stock in the merger will be subject to allocation procedures set forth in the merger agreement. Whether you receive the amount of cash and/or stock you request in your election form will depend in part on the elections of other Mercersburg Financial Corporation stockholders. You may not receive the form of consideration that you elect in the merger, and you may instead receive a pro rata amount of cash and Orrstown Financial Services common stock.

If you have a preference for receiving either cash or Orrstown Financial Services common stock for your shares of Mercersburg Financial Corporation common stock, you should return the election form indicating your preference. Mercersburg Financial Corporation stockholders who make an election will be accorded priority over those stockholders who make no election in instances where the cash consideration or stock consideration must be re-allocated in order to achieve the required ratio of Mercersburg Financial Corporation shares being converted into the right to receive cash and Orrstown Financial Services common stock. If you do not make an election, you will be allocated cash and/or Orrstown Financial Services common stock depending on the elections made by other Mercersburg Financial Corporation stockholders. Please see the examples set forth in the section of this proxy statement/prospectus titled *The Merger Agreement Allocation Procedures* beginning on page 67. **However, even if you do make an election, the form of merger consideration you actually receive may differ from the form of merger consideration you elect to receive.**

The market price of Orrstown Financial Services common stock will fluctuate between the date of this proxy statement/prospectus, the date of your election and the effective time of the merger. Because the exchange ratio is fixed, such fluctuations will alter the value of the shares of Orrstown Financial Services common stock that you may receive in the merger. In addition, because the tax consequences of receiving cash will differ from the tax consequences of receiving Orrstown Financial Services common stock, you should carefully read the section of this proxy statement/prospectus titled "Material Federal Income Tax Consequences" beginning on page 87.

***Opinion of Mercersburg Financial Corporation's Financial Advisor (page 49)***

In connection with the merger, Mercersburg Financial Corporation's financial advisor, Ambassador Financial Group, Inc. ( "Ambassador" ), delivered a written opinion, dated May 31, 2018, to the Mercersburg Financial Corporation board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to the holders of Mercersburg Financial Corporation common stock of the merger consideration (defined in the opinion as the stock consideration and the cash consideration, taken together) in the proposed merger. **The full text of Ambassador's written**

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**opinion to Mercersburg Financial Corporation, which sets forth, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as *Annex C* to this proxy statement/prospectus. Ambassador's opinion to Mercersburg Financial Corporation's board of directors was rendered for the benefit of Mercersburg Financial Corporation's board (in its capacity as such) in connection with its evaluation of the merger. Ambassador's opinion is not intended and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to the merger or any matter relating thereto or whether such shareholder should elect to receive the cash consideration or the stock consideration. Ambassador's opinion does not address the relative merits of the merger as compared to any other transaction or business strategy in which Mercersburg Financial Corporation might engage or the merits of the underlying decision by Mercersburg Financial Corporation to engage in the merger.**

***Interests of Mercersburg Financial Corporation Directors and Executive Officers in the Merger (page 62)***

Some of the members of Mercersburg Financial Corporation's management and board of directors may be deemed to have interests in the merger that are different from, or in addition to, the interests of Mercersburg Financial Corporation stockholders generally. For example, upon execution of the merger agreement, Orrstown Financial Services and Orrstown Bank entered into an employment agreement and a change in control agreement with Robert J. Fignar, President and Chief Executive Officer of Mercersburg Financial Corporation, to be effective as of the closing date of the merger. The employment agreement provides that Mr. Fignar shall serve as the Market President for the Southern Region, defined as Franklin and Perry Counties in Pennsylvania and Washington County in Maryland, of Orrstown Bank. During the term of the employment agreement, Mr. Fignar's minimum annual base salary will be \$230,000. The employment agreement provides for a term of four years, plus an automatic extension for successive additional one year terms, unless Mr. Fignar or Orrstown Financial Services and Orrstown Bank gives at least sixty days' notice of non-renewal. If Mr. Fignar is still employed upon attaining age 65, he may voluntarily provide notice of retirement at any time thereafter in which event he will receive salary continuation for a period of six months plus payment of 150% of the premium cost to maintain his group life insurance benefit for a period of three years. The employment agreement also provides for severance payments to Mr. Fignar if his employment is terminated by Orrstown Financial Services and Orrstown Bank without Cause (as defined in the employment agreement), he resigns for any reason (including death or Disability as defined in the employment agreement) within two years immediately following the closing date of the merger, or he resigns for Good Reason (as defined in the employment agreement) after the second anniversary of the closing date of the merger during the term of the employment agreement. The change in control agreement becomes effective after the second anniversary of the closing date of the merger and provides that Orrstown Financial Services and Orrstown Bank are to pay to Mr. Fignar specified amounts of cash compensation and provide specified health and welfare benefits in the event that his employment is terminated by Orrstown Financial Services or Orrstown Bank or any successor, without cause, within the 90 day period immediately preceding, or the two years following, the occurrence of a Change in Control (as defined in the change in control agreement) or if such termination is initiated by Mr. Fignar for any reason within six months following a change in control. The employment agreement and the change in control agreement also include customary non-competition and non-solicitation provisions.

In addition, members of Mercersburg Financial Corporation's management and board of directors may be deemed to have interests in the merger that are different from, or in addition, to the interests of Mercersburg Financial Corporation stockholders generally, including:

payment of cash severance benefits under existing severance policies to other Mercersburg Financial Corporation employees upon termination of their employment; and

continued indemnification and liability insurance coverage for directors and executive officers with respect to acts or omissions occurring before the merger.

***Limitations on Considering Other Acquisition Proposals (page 76)***

The merger agreement restricts Mercersburg Financial Corporation's ability to solicit or engage in discussions or negotiations with a third party regarding a proposal to acquire Mercersburg Financial Corporation. However, if Mercersburg Financial Corporation receives a bona fide unsolicited written acquisition proposal from a third party that is, or is reasonably likely to be, more favorable from a financial point of view to Mercersburg Financial Corporation stockholders than the terms of the merger agreement, Mercersburg Financial Corporation may furnish nonpublic information to that third party and engage in negotiations regarding an acquisition proposal with that third party, subject to specified conditions in the merger agreement. In addition, the Mercersburg Financial Corporation board of directors may not:

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withdraw, qualify, amend, modify, withhold, or propose to withdraw, qualify, amend, modify, or withhold, in a manner adverse to Orrstown Financial Services in connection with the transactions provided for in the merger agreement (including the merger), its recommendation that Mercersburg Financial Corporation stockholders vote to approve the merger agreement and the merger;

fail to reaffirm its recommendation that Mercersburg Financial Corporation stockholders vote to approve the merger agreement and the merger within three business days following a request by Orrstown Financial Services;

make any statement, announcement or release, in connection with the special meeting or otherwise, inconsistent with its recommendation that Mercersburg Financial Corporation stockholders vote to approve the merger agreement and the merger (including taking a neutral position or no position with respect to an acquisition proposal);

approve or recommend, or propose to approve or recommend, any acquisition proposal; or

enter into (or cause Mercersburg Financial Corporation, or any of its subsidiaries to enter into) any letter of intent, agreement in principle, acquisition agreement or other agreement:

related to any acquisition transaction (other than a confidentiality agreement entered into in accordance with the no solicitation provisions of the merger agreement); or

requiring Mercersburg Financial Corporation to abandon, terminate or fail to consummate the merger or any other transaction provided for in the merger agreement;

unless the Mercersburg Financial Corporation board of directors determines in good faith, after consultation with its outside legal counsel and its independent financial advisor, that an acquisition proposal is a superior proposal and, after consultation with such counsel, that it is required to take such action to comply with the fiduciary standard of conduct required of a board of directors under the applicable law and Mercersburg Financial Corporation's bylaws. In that event, Mercersburg Financial Corporation must provide Orrstown Financial Services with notice of such determination and cooperate and negotiate in good faith with Orrstown Financial Services to adjust or modify the terms and conditions of the merger agreement.

***Conditions to the Merger (page 71)***

Orrstown Financial Services and Mercersburg Financial Corporation will not complete the merger unless a number of conditions are satisfied or waived, including:

the stockholders of Mercersburg Financial Corporation must approve the merger agreement;

Orrstown Financial Services and Mercersburg Financial Corporation must have obtained all regulatory approvals required to complete the transactions provided for in the merger agreement, all related statutory waiting periods have expired, and none of the regulatory approvals imposed any term, condition or restriction that Orrstown Financial Services reasonably determines would (a) prohibit or materially limit the ownership or operation by Orrstown Financial Services of all or any material portion of the business or assets of Mercersburg Financial Corporation or Orrstown Bank, (b) compel Orrstown Financial Services to dispose of or hold separate all or any material portion of the business or assets of Mercersburg Financial Corporation or Orrstown Bank or (c) compel Orrstown Financial Services to take any action, or commit to take any action, or agree to any condition or request, if the prohibition, limitation, condition or other requirement described in clauses (a)-(c) of this sentence would have a material adverse effect on the future operation by Orrstown Financial Services of its business, taken as a whole (a burdensome condition );

the absence of any order, decree or injunction in effect, or any law, statute or regulation enacted or adopted, that enjoins, prohibits, materially restricts or makes illegal the completion of the transactions provided for in the merger agreement;



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Orrstown Financial Services and Mercersburg Financial Corporation must each receive a legal opinion from their respective counsel, or such other counsel as provided for in the merger agreement, regarding treatment of the merger as a reorganization for federal income tax purposes;

the representations and warranties of each of the parties in the merger agreement must be accurate, subject to exceptions that would not have a material adverse effect;

each of the parties in the merger agreement must have performed in all material respects all obligations required to be performed by it;

holders of no more than ten percent of the outstanding shares of Mercersburg Financial Corporation common stock have asserted dissenters' rights of appraisal under the Pennsylvania Business Corporation Law; and

the registration statement becoming effective.

***Termination of the Merger Agreement (page 73)***

The parties can mutually agree to terminate the merger agreement before the merger has been completed, and either company can terminate the merger agreement if:

the merger is not consummated by March 31, 2019, unless the terminating party's failure to comply with the merger agreement was the cause of the failure of the merger to occur on or before this date;

the other party materially breaches any of its representations, warranties, covenants or agreements contained in the merger agreement, the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement, and the breach is not cured within 30 days of written notice;

(1) any regulatory approval required for consummation of the merger and the other transactions provided for in the merger agreement imposes any term, condition or restriction upon Orrstown Financial Services or any of its subsidiaries that Orrstown Financial Services reasonably determines, after consultation with Mercersburg Financial Corporation, is a burdensome condition or has been denied by final nonappealable action, or (2) any governmental entity has issued a final nonappealable order, injunction or decree enjoining or otherwise prohibiting the transactions provided for in the merger agreement, and the terminating party in either case has used its reasonable best efforts to have the order, injunction or decree lifted or to prevent the burdensome condition from being imposed; or

the required approval of the merger agreement by the Mercersburg Financial Corporation stockholders is not obtained.

In addition, Orrstown Financial Services may terminate the merger agreement if:

the Mercersburg Financial Corporation board of directors:

withdraws, qualifies, amends, modifies or withholds its recommendation to the Mercersburg Financial Corporation stockholders to vote in favor of the merger, fails to reaffirm such recommendation within three business days following a request to do so by Orrstown Financial Services, or makes any statement, filing or release that is inconsistent with such recommendation;

materially breaches its obligation to call, give notice of hold and commence the special meeting or to solicit proxies in favor of approval of the merger agreement and the merger;

approves or recommends another acquisition proposal;

enters into, or causes Mercersburg Financial Corporation to enter into, any letter of intent, agreement in principle, acquisition, or other agreement related to an acquisition proposal, or requiring Mercersburg Financial Corporation to abandon, terminate or fail to complete the merger or the transactions contemplated thereby;

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resolves or otherwise determines to take, or announces an intention to take, any of the actions listed above; or

Mercersburg Financial Corporation or any of its representatives breaches in any material respect the provisions in the merger agreement prohibiting the solicitation of other offers.

Mercersburg Financial Corporation has the right to terminate the merger agreement in connection with entering into a definitive agreement to effect a superior proposal, subject to specified conditions in the merger agreement. In addition, Mercersburg Financial Corporation has the right to terminate the merger agreement if the volume weighted average stock price of Orrstown Financial Services common stock as reported on NASDAQ for the 15 consecutive trading days immediately preceding the determination date, is less than \$20.928 per share and Orrstown Financial Services common stock underperforms the NASDAQ Bank Index by more than 20% between May 29, 2018 and the determination date. If Mercersburg Financial Corporation exercises this termination right, Orrstown Financial Services will have the option to increase the amount of Orrstown Financial Services common stock to be provided to Mercersburg Financial Corporation stockholders to an amount which, when multiplied by the volume weighted average price of Orrstown Financial Services common stock as reported on NASDAQ for the fifteen consecutive trading days immediately preceding the determination date, equals the lesser of (1) \$40.00 or (2) \$40.00 multiplied by the index ratio. If Orrstown Financial Services elects to increase the stock consideration pursuant to the preceding sentence, no termination will occur.

***Termination Fee (page 75)***

Under the terms of the merger agreement, Mercersburg Financial Corporation must pay Orrstown Financial Services a termination fee of \$1,250,000 if:

Orrstown Financial Services terminates the merger agreement as a result of the Mercersburg Financial Corporation board of directors:

withdrawing, qualifying, amending, modifying or withholding its recommendation to the Mercersburg Financial Corporation stockholders to vote in favor of the merger, failing to reaffirm such recommendation within five business days following a request to do so by Orrstown Financial Services, or making any statement, filing or release that is inconsistent with such recommendation;

materially breaching its obligation to call, give notice of hold and commence the special meeting or to solicit proxies in favor of the merger;

approving or recommending another acquisition proposal;

entering into, causing Mercersburg Financial Corporation to enter into, any letter of intent, agreement in principle, acquisition, or other agreement related to an acquisition proposal, or requiring Mercersburg Financial Corporation to abandon, terminate or fail to complete the merger

or the transactions contemplated thereby; or

resolving or otherwise determining to take, or announcing an intention to take, any of the actions listed above;

Orrstown Financial Services terminates the merger agreement as a result of a material breach by Mercersburg Financial Corporation of the provisions in the merger agreement prohibiting the solicitation of other offers;

Mercersburg Financial Corporation terminates the merger agreement in connection with entering into a definitive agreement to effect a superior proposal;

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Orrstown Financial Services or Mercersburg Financial Corporation terminates the merger agreement as a result of:

the failure of the Mercersburg Financial Corporation stockholders to approve the merger agreement and the merger, or the merger not having been consummated by March 31, 2019 due to the failure of the Mercersburg Financial Corporation stockholders to approve the merger agreement, and both

an acquisition proposal with respect to Mercersburg Financial Corporation has been publicly announced, disclosed or otherwise communicated to the Mercersburg Financial Corporation board of directors or senior management of Mercersburg Financial Corporation prior to the Mercersburg Financial Corporation special meeting or March 31, 2019, as applicable; and

within 12 months of termination of the merger agreement, Mercersburg Financial Corporation enters into a definitive agreement with respect to, or consummates, another acquisition transaction; or

Orrstown Financial Services terminates the merger agreement as a result of a willful material breach by Mercersburg Financial Corporation of any of its representations, warranties, covenants or agreements contained in the merger agreement, and both:

an acquisition proposal with respect to Mercersburg Financial Corporation has been publicly announced, disclosed or otherwise communicated to the Mercersburg Financial Corporation board of directors or senior management of Mercersburg Financial Corporation prior to such breach or during the related cure period; and

within 12 months of termination of the merger agreement, Mercersburg Financial Corporation enters into a definitive agreement with respect to, or consummates, another acquisition transaction.

***Effective Time of the Merger (page 64)***

We expect that the merger will be completed as soon as practicable following the satisfaction or waiver of all closing conditions, including approval of the merger agreement and the merger by the Mercersburg Financial Corporation stockholders and receipt of all regulatory approvals. The parties cannot be certain whether or when any of the conditions to the merger will be satisfied or waived, where permissible. We currently expect to complete the merger during the fourth quarter of 2018; however, because the merger is subject to conditions beyond our control, we cannot predict the actual timing of the closing.

***Material Federal Income Tax Consequences for Mercersburg Financial Corporation Stockholders (page 87)***

Each of Orrstown Financial Services and Mercersburg Financial Corporation will receive an opinion of counsel to the effect that, based on certain facts, representations and assumptions, the merger will be treated as a reorganization pursuant to section 368(a) of the Internal Revenue Code of 1986, as amended (the Code), for federal income tax

purposes. Accordingly, you generally will not recognize any gain or loss on the exchange of shares of Mercersburg Financial Corporation common stock solely for shares of Orrstown Financial Services common stock, except with respect to any cash received in lieu of fractional shares of Orrstown Financial Services common stock. However, you generally will incur a tax obligation if you receive cash in exchange for your shares of Mercersburg Financial Corporation common stock. Each of Orrstown Financial Services and Mercersburg Financial Corporation's obligations to complete the merger are conditioned on its receipt of this opinion, dated as of the effective date of the merger, regarding certain federal income tax consequences of the merger.

Tax matters are complicated, and the tax consequences of the merger to you will depend upon the facts of your particular situation and on whether you receive stock, cash or a mix of stock and cash in the merger. In addition, you may be subject to state, local or foreign tax laws that are not discussed in this proxy statement/prospectus.

**Accordingly, we strongly urge you to consult your own tax advisor for a full understanding of the tax consequences to you of the merger.**

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***Required Regulatory Approvals (page 85)***

To complete the merger, Orrstown Financial Services and Orrstown Bank need the prior approval of the Board of Governors of the Federal Reserve System and the Pennsylvania Department of Banking and Securities. The United States Department of Justice is able to provide input into the approval process of federal banking agencies to challenge the approval on antitrust grounds. Orrstown Financial Services and Orrstown Bank have filed all necessary applications and notices with the applicable regulatory authorities. Orrstown Financial Services and Orrstown Bank cannot predict, however, whether or when the required regulatory approvals will be obtained or whether any such approvals will impose any burdensome condition upon Orrstown Financial Services or Orrstown Bank.

***Accounting Treatment (page 61)***

The merger will be accounted for using the acquisition method of accounting with Orrstown Financial Services treated as the acquiror. Under this method of accounting, Mercersburg Financial Corporation's assets and liabilities will be recorded by Orrstown Financial Services at their respective fair values as of the closing date of the merger and added to those of Orrstown Financial Services. Any excess of purchase price over the net fair values of Mercersburg Financial Corporation's assets and liabilities will be recorded as goodwill. Any excess of the fair value of Mercersburg Financial Corporation's net assets over the purchase price will be recognized in earnings by Orrstown Financial Services on the closing date of the merger. Financial statements of Orrstown Financial Services issued after the merger will reflect these values, but will not be restated retroactively to reflect the historical financial position or results of operations of Mercersburg Financial Corporation prior to the merger. The results of operations of Mercersburg Financial Corporation will be included in the results of operations of Orrstown Financial Services beginning on the day after the effective date of the merger.

***Listing of Orrstown Financial Services common stock to be Issued in the Merger (page 79)***

Orrstown Financial Services' common stock is quoted on NASDAQ under the trading symbol ORRF. Under the terms of the merger agreement, Orrstown Financial Services will file a notice of additional listing of shares with NASDAQ with respect to the shares of Orrstown Financial Services common stock to be issued to the holders of Mercersburg Financial Corporation common stock in the merger so that these shares will be listed and traded on NASDAQ following the merger.

***Differences Between Rights of Holders of Orrstown Financial Services and Mercersburg Financial Corporation Stock (page 91)***

The rights of Mercersburg Financial Corporation stockholders currently are governed by Mercersburg Financial Corporation's articles of incorporation and bylaws, and by the Pennsylvania Business Corporation Law. After the merger is completed, Mercersburg Financial Corporation stockholders who receive Orrstown Financial Services common stock in the merger will become stockholders of Orrstown Financial Services, and, therefore, their rights as stockholders of Orrstown Financial Services will be governed by Orrstown Financial Services' articles of incorporation and bylaws, and by the Pennsylvania Business Corporation Law. This means that, as a result of the merger, Mercersburg Financial Corporation stockholders will have different rights when they become holders of Orrstown Financial Services common stock than they currently have as holders of Mercersburg Financial Corporation common stock.





**Table of Contents****SELECTED HISTORICAL FINANCIAL DATA****Orrstown Financial Services Selected Historical Financial and Other Data**

The following tables set forth selected historical financial and other data of Orrstown Financial Services for the periods and as of the dates indicated. The historical consolidated financial data as of and for each of the years in the five-year period ended December 31, 2017 have been derived in part from Orrstown Financial Services' audited financial statements and related notes incorporated by reference into this proxy statement/prospectus. The information at and for the three months ended March 31, 2018 and 2017 is unaudited. However, in the opinion of management of Orrstown Financial Services, all adjustments (all of which are of a normal recurring nature) that are necessary for a fair statement are reflected in the unaudited information. The selected operating data presented below for the three months ended March 31, 2018 are not necessarily indicative of a full year's operations.

	At or For the Three Months Ended March 31,			At or For the Year Ended December 31,			
	2018	2017	2017	2016	2015	2014	2013
<b>In Thousands, Except per</b>							
<b>(Share Information)</b>							
<b>Summary of Operations</b>							
Interest and dividend income	\$ 14,275	\$ 11,830	\$ 51,015	\$ 41,962	\$ 38,635	\$ 38,183	\$ 37,098
Interest expense	2,591	1,593	7,644	5,417	4,301	4,159	5,011
Net interest income	11,684	10,237	43,371	36,545	34,334	34,024	32,087
Provision for loan losses	200		1,000	250	(603)	(3,900)	(3,150)
Net interest income after provision for loan losses	11,484	10,237	42,371	36,295	34,937	37,924	35,237
Investment securities gains	816	3	1,190	1,420	1,924	1,935	332
Noninterest income	4,886	4,332	19,197	18,319	17,254	16,919	17,476
Noninterest expenses	13,069	12,146	50,330	48,140	44,607	43,768	43,247
Income before income tax expense (benefit)	4,117	2,426	12,428	7,894	9,508	13,010	9,798
Income tax expense (benefit)	492	424	4,338	1,266	1,634	(16,132)	(206)
Net income	\$ 3,625	\$ 2,002	\$ 8,090	\$ 6,628	\$ 7,874	\$ 29,142	\$ 10,004
<b>Per Share Information</b>							
Basic earnings per share	\$ 0.45	\$ 0.25	\$ 1.00	\$ 0.82	\$ 0.97	\$ 3.59	\$ 1.24
Diluted earnings per share	0.44	0.24	0.98	0.81	0.97	3.59	1.24
Dividends per share	0.12	0.10	0.42	0.35	0.22	0.00	0.00
Book value at period end	16.95	16.50	17.34	16.28	16.08	15.40	11.28
	8,082,400	8,059,503	8,070,472	8,059,412	8,106,438	8,110,344	8,093,306

Weighted average shares outstanding basic							
Weighted average shares outstanding diluted	8,268,313	8,198,127	8,226,261	8,145,456	8,141,600	8,116,054	8,093,306
<b>Stock Price Statistics</b>							
Price earnings ratio at close	13.2	22.1	25.3	27.3	18.4	4.7	13.2
Diluted price earnings ratio at close	13.5	23.0	25.8	27.7	18.4	4.7	13.2
Price to book at close	1.4	1.4	1.5	1.4	1.1	1.1	1.4
<b>Period-End Information</b>							
Total assets	\$ 1,635,906	\$ 1,453,946	\$ 1,558,849	\$ 1,414,504	\$ 1,292,816	\$ 1,190,443	\$ 1,177,812
Loans	1,044,114	901,331	1,010,012	883,391	781,713	704,946	671,037
Total investment securities	466,922	431,025	425,305	408,124	402,844	384,549	416,864
Deposits							
Noninterest-bearing	172,496	157,983	162,343	150,747	131,390	116,302	116,371
Deposits interest-bearing	1,127,018	1,025,893	1,057,172	1,001,705	900,777	833,402	884,019
Total deposits	1,299,514	1,183,876	1,219,515	1,152,452	1,032,167	949,704	1,000,390
Repurchase agreements	12,731	43,414	43,576	35,864	29,156	21,742	9,032
Borrowed money	164,725	74,077	133,815	76,163	84,495	79,812	66,077
Total stockholders equity	142,556	137,469	144,765	134,859	133,061	127,265	91,439
Assets under management							
Market value	\$ 1,372,926	\$ 1,257,013	\$ 1,370,950	\$ 1,174,143	\$ 966,362	\$ 1,017,013	\$ 1,085,216
<b>Financial Ratios</b>							
Stockholders equity / total assets	8.71%	9.45%	9.29%	9.53%	10.29%	10.69%	7.76%
Average equity / average assets	8.87%	9.52%	9.49%	10.41%	10.66%	8.63%	7.45%
Return on average equity	10.38%	6.01%	5.73%	4.80%	5.99%	28.78%	11.30%
Return on average assets	0.92%	0.57%	0.54%	0.50%	0.64%	2.48%	0.84%
<b>Capital Ratios</b>							
Total capital to risk weighted assets	13.2%	14.3%	13.3%	14.6%	15.8%	16.8%	15.0%
Tier 1 capital to risk weighted assets	12.1%	13.1%	12.1%	13.3%	14.6%	15.6%	13.7%
Common equity Tier 1 capital to risk weighted assets	12.1%	13.1%	12.1%	13.3%	14.6%	n/a	n/a
Tier 1 capital to average assets	8.9%	9.1%	8.9%	9.3%	9.8%	9.5%	8.1%

**Table of Contents****Mercersburg Financial Corporation Selected Historical Financial and Other Data**

The following tables set forth selected historical financial data for Mercersburg Financial Corporation as of and for each of the three months ended March 31, 2018 and 2017 (unaudited) and for the five years ended December 31, 2017, 2016, 2015, 2014 and 2013 (which has been derived primarily from its audited financial statements). The information at and for the three months ended March 31, 2018 and 2017 is unaudited. However, in the opinion of management of Mercersburg Financial Corporation, all adjustments (all of which are of a normal recurring nature) that are necessary for a fair statement are reflected in the unaudited information. The selected operating data presented below for the three months ended March 31, 2018 are not necessarily indicative of a full year's operations. You should read these tables together with Management's Discussion and Analysis of Financial Condition and Results of Operations of Mercersburg Financial Corporation included

in this proxy statement/prospectus.

(Thousands, Except per Share Information)	At or For the Three Months Ended March 31,			At or For the Year Ended December 31,			
	2018	2017	2017	2016	2015	2014	2013
<b>Summary of Operations</b>							
Interest and dividend income	\$ 1,837	\$ 1,790	\$ 7,243	\$ 6,985	\$ 6,662	\$ 6,491	\$ 6,8
Interest expense	196	169	703	633	657	766	1,0
Interest income	1,641	1,621	6,540	6,352	6,005	5,725	5,8
Provision for loan losses		35	153	450	130	(150)	(2
Interest income after provision for loan losses	1,641	1,586	6,387	5,902	5,875	5,875	6,0
Investment securities gains				38	17	30	1
Interest income	199	188	1,013	937	891	878	1,0
Interest expenses	1,500	1,429	5,764	5,599	5,513	5,521	6,0
Income before income tax expense (benefit)	340	345	1,636	1,278	1,270	1,262	1,2
Income tax expense	49	81	797	235	208	171	
Income	\$ 291	\$ 264	\$ 839	\$ 1,043	\$ 1,062	\$ 1,091	\$ 1,1
<b>Share Information</b>							
Earnings per share	\$ 0.36	\$ 0.33	\$ 1.04	\$ 1.29	\$ 1.31	\$ 1.35	\$ 1.1
Dividends per share	0.14	0.14	0.56	0.48	0.48	0.40	0.
Book value at period end	26.08	25.69	25.97	25.48	24.92	24.18	23.
Weighted average shares outstanding	810,080	810,080	810,080	810,080	810,080	810,080	810,0
<b>End-Of-Period Information</b>							
Assets	\$ 183,966	\$ 180,962	\$ 180,390	\$ 177,016	\$ 169,026	\$ 167,786	\$ 171,7
Loans	150,195	150,884	152,056	149,813	141,970	132,009	123,2
Investment securities	8,460	8,460	9,179	8,697	11,576	14,633	17,0
Assets noninterest-bearing	27,517	25,348	27,279	25,512	25,491	23,490	21,2
Assets interest-bearing	132,383	132,119	129,332	128,253	120,751	122,195	129,2
Deposits	159,900	157,467	156,611	153,766	146,242	145,685	150,5

stockholders equity	21,128	20,813	21,035	20,641	20,186	19,585	18,9
<b>Financial Ratios</b>							
holders equity to total assets	11.48%	11.50%	11.66%	11.66%	11.94%	11.67%	11.
age equity / average assets	11.38%	11.45%	11.72%	11.86%	11.88%	11.41%	10.
n on average equity	5.51%	5.06%	3.99%	5.10%	5.33%	5.63%	6.
n on average assets	0.64%	0.59%	0.47%	0.60%	0.63%	0.64%	0.
<b>Capital Ratios (1)</b>							
capital to risk weighted assets	17.7%	17.2%	17.5%	17.4%	17.5%	16.6%	16.
capital to risk weighted assets	16.4%	15.9%	16.2%	16.1%	16.3%	15.4%	15.
non equity Tier 1 capital to risk weighted	16.4%	15.9%	16.2%	16.1%	16.3%	na	
capital to average assets	11.3%	11.3%	11.5%	11.5%	11.8%	10.8%	10.

- (1) The capital ratios presented are for the bank subsidiary only. As a Small Bank Holding Company as defined in the Small Bank Holding Company and Small Savings and Loan Holding Company Policy Statement attached as an appendix to the FRB's Regulation Y, Mercersburg Financial Corporation is not subject to the regulatory capital requirements prescribed by Regulation G.

Table of Contents**ORRSTOWN FINANCIAL SERVICES MARKET PRICE AND DIVIDEND INFORMATION**

Orrstown Financial Services common stock currently trades on the NASDAQ Capital Market under the symbol ORRF. The following table shows the high and low sales price per share for Orrstown Financial Services common stock by quarter, as reported by the NASDAQ Capital Market for the periods indicated. The table also provides information as to dividends declared per share of Orrstown Financial Services common stock.

	Market Prices		Dividend Paid Per Share
	High	Low	
<b>Fiscal Year Ending December 31, 2018</b>			
First Quarter	\$ 26.65	\$ 23.40	\$ 0.12
Second Quarter	\$ 27.05	\$ 23.60	\$ 0.13
Third Quarter (through July 24, 2018)	\$ 27.00	\$ 25.55	\$ 0.13
<b>Fiscal Year Ended December 31, 2017</b>			
First Quarter	\$ 23.40	\$ 20.00	\$ 0.10
Second Quarter	\$ 23.00	\$ 19.05	\$ 0.10
Third Quarter	\$ 26.55	\$ 22.15	\$ 0.10
Fourth Quarter	\$ 26.95	\$ 24.15	\$ 0.12
<b>Fiscal Year Ended December 31, 2016</b>			
First Quarter	\$ 18.11	\$ 16.60	\$ 0.08
Second Quarter	\$ 19.95	\$ 17.05	\$ 0.09
Third Quarter	\$ 23.73	\$ 17.59	\$ 0.09
Fourth Quarter	\$ 23.75	\$ 18.05	\$ 0.09

On May 31, 2018, the last full trading day immediately preceding the public announcement of the merger, and on July 24, 2018, the most recent practicable date prior to the mailing of this proxy statement/prospectus, the last reported sales prices of Orrstown Financial Services common stock, as reported by the NASDAQ Capital Market, were \$25.95 per share and \$27.00 per share, respectively. The market price of Orrstown Financial Services common stock is likely to fluctuate prior to the effective time of the merger. You are encouraged to obtain current trading prices for Orrstown Financial Services common stock in considering whether to vote on the matters being considered at the annual meeting and in completing your election form for the merger consideration.

Orrstown Financial Services expects that after the completion of the merger, subject to approval and declaration by the Orrstown Financial Services board of directors, it will continue to declare quarterly cash dividends on shares of its common stock consistent with past practices. The actual payment of dividends is subject to numerous factors, and no assurance can be given that Orrstown Financial Services will pay dividends following the completion of the merger or that dividends will not be reduced in the future. The current annualized rate of distributions on the shares of Orrstown Financial Services common stock is \$0.52 per share.

As of July 23, 2018, there were approximately 2,685 stockholders of record of Orrstown Financial Services common stock.



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**RISK FACTORS**

In addition to the other information contained in or incorporated by reference into this proxy statement/prospectus, including the matters addressed in the section of this proxy statement/prospectus titled *Special Note Regarding Forward-Looking Statements* on page 29, you should carefully consider the following risk factors described below in deciding how to vote. You should also read and consider the risk factors associated with the business of Orrstown Financial Services because these risk factors may affect the operations and financial results of the combined company. These risk factors may be found in the Orrstown Financial Services Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

**Risks Relating to the Merger**

***The value of the merger consideration that Mercersburg Financial Corporation stockholders receive may vary with changes in Orrstown Financial Services stock price and whether they receive stock or cash consideration.***

Upon completion of the merger, 85% of the total number of shares of Mercersburg Financial Corporation common stock outstanding immediately prior to the effective time of the merger will be converted into shares of Orrstown Financial Services common stock, and the remaining shares of Mercersburg Financial Corporation common stock will be converted into cash. The exchange ratio for the stock portion of the merger consideration is fixed. Accordingly, the dollar value of Orrstown Financial Services common stock that Mercersburg Financial Corporation stockholders will receive upon completion of the merger will depend upon the market value of Orrstown Financial Services common stock at the time of completion of the merger, which may be lower or higher than the closing price of Orrstown Financial Services common stock on the last full trading day preceding public announcement of the merger, the dates of the special meetings or the date on which elections are due. Thus, at the time of the special meetings and at the time the elections are due, you will not know or be able to determine the dollar value of the stock consideration to be received in the merger. See the section of this proxy statement/prospectus titled *The Merger Agreement Merger Consideration* beginning on page 64.

***Mercersburg Financial Corporation stockholders may not receive the form of merger consideration that they elect.***

If the merger agreement is approved by the holders of at least 60% of the shares of Mercersburg Financial Corporation common stock outstanding and entitled to vote at the special meeting and the merger is subsequently completed, each outstanding share of Mercersburg Financial Corporation common stock will be converted into the right to receive at the election of the holder thereof either (1) \$40.00 in cash, without interest, or (2) 1.5291 shares of Orrstown Financial Services common stock, subject to proration to ensure that in the aggregate 85% of Mercersburg Financial Corporation common stock will be converted to Orrstown Financial Services common stock and the remaining 15% of Mercersburg Financial Corporation common stock will be converted to cash.

You will have the opportunity to elect to receive all cash, all stock or a combination of cash and stock with respect to the shares of Mercersburg Financial Corporation common stock that you hold. Your right as a Mercersburg Financial Corporation stockholder to receive the consideration you elect for your shares is limited because of the allocation procedures set forth in the merger agreement, which are intended to ensure that 85% of the total number of shares of Mercersburg Financial Corporation common stock outstanding immediately prior to the effective time of the merger will be converted into shares of Orrstown Financial Services common stock, and the remaining shares of Mercersburg Financial Corporation common stock will be converted into cash. If the total stock elections by Mercersburg Financial Corporation stockholders are greater, or less, than the aggregate stock consideration to be paid in the merger, you may not receive the form of consideration that you elect and you may receive a pro rata amount of cash and Orrstown Financial Services common stock. A detailed discussion of the election and allocation provisions of the merger

agreement is set forth in the sections of this proxy statement/prospectus titled "The Merger Agreement," "Merger Consideration," "Election Procedures" and "Allocation Procedures," beginning on page 64. We recommend that you carefully read this discussion and the merger agreement attached to this proxy statement/prospectus as *Annex A*.

***The federal income tax consequences of the merger for Mercersburg Financial Corporation stockholders will be dependent upon the merger consideration received.***

The federal income tax consequences of the merger to you will depend upon the merger consideration that you receive. You generally will not recognize any gain or loss on the exchange of shares of Mercersburg Financial Corporation common stock solely for shares of Orrstown Financial Services common stock, except with respect to cash received in lieu of fractional shares of Orrstown Financial Services common stock. However, you generally will be taxed if you receive cash in exchange for your shares of Mercersburg Financial Corporation common stock. Furthermore, since the merger consideration



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you receive may differ from what you elected, you cannot control the tax consequences of the merger to you. For a detailed discussion of the federal income tax consequences of the merger to Mercersburg Financial Corporation stockholders generally, see the section of this proxy statement/prospectus titled "Material Federal Income Tax Consequences" beginning on page 87. We strongly encourage you to consult your own tax advisors as to the effect of the merger on your specific interests.

***There is no assurance when or even if the merger will be completed.***

The merger agreement is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include:

approval of the merger agreement and the merger by Mercersburg Financial Corporation stockholders;

the receipt of required regulatory approvals;

absence of orders prohibiting the completion of the merger;

effectiveness of the registration statement of which this proxy statement/prospectus is a part;

the continued accuracy of the representations and warranties by both parties and the performance by both parties of their covenants and agreements; and

the receipt by both parties of legal opinions from their respective tax counsels.

There can be no assurance that the parties will be able to satisfy the closing conditions or that closing conditions beyond their control will be satisfied or waived.

***The merger agreement may be terminated in accordance with its terms and the merger may not be completed.***

The parties can agree at any time to terminate the merger agreement even after Mercersburg Financial Corporation's stockholders have provided their approval. The parties can also terminate the merger agreement under other specified circumstances. See "The Merger Agreement Termination" on page 73. In addition, Mercersburg Financial Corporation may choose to terminate the merger agreement if the volume weighted average stock price of Orrstown Financial Services' common stock as reported on NASDAQ during the 15 trading day period ending on the determination date is less than \$20.928 per share and Orrstown Financial Services' common stock underperforms the NASDAQ Bank Index by more than 20% between May 29, 2018 and the determination date. Any such termination would be subject to the right of Orrstown Financial Services to increase the amount of Orrstown Financial Services common stock to be provided to Mercersburg Financial Corporation stockholders pursuant to the formula prescribed in the merger agreement. See the section of this proxy statement/prospectus titled "The Merger Agreement Termination" beginning on page 73 for a more complete discussion of the circumstances under which the merger agreement could be terminated.

***Regulatory approvals may not be received or may take longer than expected in order to be obtained.***

Orrstown Financial Services and Orrstown Bank are required to obtain the approvals of the Board of Governors of the Federal Reserve System and the Pennsylvania Department of Banking and Securities prior to completing the merger. Obtaining the approval of these regulatory agencies may delay the date of completion of the merger. In addition, you should be aware that, as in any transaction, it is possible that, among other things, restrictions on the combined operations of the two companies may be sought by governmental agencies as a condition to obtaining the required regulatory approvals. This may diminish the benefits of the merger to Orrstown Financial Services or have an adverse effect on Orrstown Financial Services following the merger and prevent it from achieving the expected benefits of the merger. Orrstown Financial Services has the right to terminate the merger agreement if the approval of any governmental authority required for consummation of the merger and the other transactions provided for in the merger agreement, imposes any term, condition or restriction upon Orrstown Financial Services or any of its subsidiaries that Orrstown Financial Services reasonably determines would (a) prohibit or materially limit the ownership or operation by Orrstown Financial Services of any material portion of Mercersburg Financial Corporation's business or assets, (b) compel Orrstown Financial Services to dispose or hold separate any material portion of Mercersburg Financial Corporation's assets or (c) compel Orrstown Financial Services to take any action, or commit to take any action, or agree to any condition or request, if the prohibition, limitation, condition or other requirement described in clauses (a)-(c) of this sentence would have a material adverse effect on the future operation by Orrstown Financial Services of its business, taken as a whole.

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***If the merger is not completed, Mercersburg Financial Corporation will have incurred substantial expenses without their stockholders realizing the expected benefits.***

Mercersburg Financial Corporation has incurred, and will continue to incur, substantial expenses in connection with the transactions described in this proxy statement/prospectus. If the merger is not completed, these expenses may have a material adverse impact on the operating results of Mercersburg Financial Corporation.

***Mercersburg Financial Corporation's directors and executive officers have financial interests in the merger that may be different from, or in addition to, the interests of Mercersburg Financial Corporation stockholders.***

In considering the information contained in this proxy statement/prospectus, you should be aware that Mercersburg Financial Corporation's executive officers and directors have financial interests in the merger that are different from, or in addition to, the interests of Mercersburg Financial Corporation stockholders generally. For example, upon execution of the merger agreement, Orrstown Financial Services and Orrstown Bank entered into an employment agreement and a change in control agreement with Robert J. Fignar, President and Chief Executive Officer of Mercersburg Financial Corporation, to be effective as of the closing date of the merger. The employment agreement provides that Mr. Fignar shall serve as the Market President for the Southern Region, defined as Franklin and Perry Counties in Pennsylvania and Washington County in Maryland, of Orrstown Bank. During the term of the employment agreement, Mr. Fignar's minimum annual base salary will be \$230,000. The employment agreement provides for a term of four years, plus an automatic extension for successive additional one year terms, unless Mr. Fignar or Orrstown Financial Services and Orrstown Bank gives at least sixty days' notice of non-renewal. If Mr. Fignar is still employed upon attaining age 65, he may voluntarily provide notice of retirement in which event he will receive salary continuation for a period of six months plus payment of 150% of the premium cost to maintain his group life insurance benefit for a period of three years. The employment agreement also provides for severance payments to Mr. Fignar if his employment is terminated without Cause (as defined in the employment agreement), he resigns for any reason (including death or Disability as defined in the employment agreement) within two years of the closing date of the merger, or he resigns for Good Reason (as defined in the employment agreement) after the second anniversary of the closing date of the merger during the term of the employment agreement. The change in control agreement becomes effective after the second anniversary of the closing date of the merger and provides that Orrstown Financial Services and Orrstown Bank are to pay to Mr. Fignar specified amounts of cash compensation and provide specified health and welfare benefits in the event that his employment is terminated by Orrstown Financial Services or Orrstown Bank or any successor, without cause, within the 90 day period immediately preceding, or the two years following, the occurrence of a change in control (as defined in the change in control agreement) or if such termination is initiated by Mr. Fignar for any reason within six months following a change in control. The employment agreement and the change in control agreement also include customary non-competition and non-solicitation provisions.

In addition, members of Mercersburg Financial Corporation's management and board of directors may be deemed to have interests in the merger that are different from, or in addition to, the interests of Mercersburg Financial Corporation stockholders generally, including:

payment of cash severance benefits under existing severance policies to other Mercersburg Financial Corporation employees upon termination of their employment; and

continued indemnification and liability insurance coverage for directors and executive officers with respect to acts or omissions occurring before the merger.

***Goodwill incurred in the merger may negatively affect Orrstown Financial Services' financial condition.***

To the extent that the merger consideration, consisting of the cash and the number of shares of Orrstown Financial Services common stock issued or to be issued in the merger, exceeds the fair value of the net assets, including identifiable intangibles, of Mercersburg Financial Corporation, that amount will be reported as goodwill by Orrstown Financial Services. In accordance with current accounting guidance, goodwill will not be amortized but will be evaluated for impairment annually or more frequently if events or circumstances warrant. A failure to realize expected benefits of the merger could adversely impact the carrying value of the goodwill recognized in the merger and, in turn, negatively affect Orrstown Financial Services' financial results.

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***The termination fee and the restrictions on solicitation contained in the merger agreement may discourage other companies from trying to acquire Mercersburg Financial Corporation.***

Until the completion of the merger, Mercersburg Financial Corporation is restricted from soliciting, initiating, encouraging, or with some exceptions, considering any inquiries or proposals that may lead to a proposal or offer for a merger or other business combination transaction with any person other than Orrstown Financial Services except in connection with a superior proposal as provided in the merger agreement. In addition, Mercersburg Financial Corporation has agreed to pay a termination fee of \$1,250,000 to Orrstown Financial Services in specified circumstances to terminate the merger agreement. These provisions could discourage other companies from trying to acquire Mercersburg Financial Corporation even though those other companies might be willing to offer greater value to Mercersburg Financial Corporation stockholders than Orrstown Financial Services has offered in the merger.

***Orrstown Financial Services may be unable to successfully integrate Mercersburg Financial Corporation's operations.***

The merger involves the integration of two companies that previously operated independently. The difficulties of combining the companies' operations include:

integrating personnel with diverse business backgrounds;

integrating departments, systems, operating procedures and information technologies;

combining different corporate cultures;

retaining existing customers and attracting new customers; and

retaining key employees.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of the combined company's businesses and the loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration of the two companies' operations could have a material adverse effect on the business and results of operations of the combined company.

The success of the merger will depend, in part, on Orrstown Financial Services' ability to realize the anticipated benefits and cost savings from combining the business of Orrstown Financial Services with Mercersburg Financial Corporation. If Orrstown Financial Services is unable to successfully integrate Mercersburg Financial Corporation, the anticipated benefits and cost savings of the merger may not be realized fully or may take longer to realize than expected. For example, Orrstown Financial Services may fail to realize the anticipated increase in earnings and cost savings anticipated to be derived from the acquisition. In addition, as with regard to any merger, a significant change in interest rates or economic conditions or decline in asset valuations may also cause Orrstown Financial Services not to realize expected benefits and result in the merger not being as accretive as expected.

***Unanticipated costs relating to the merger could reduce Orrstown Financial Services' future earnings per share.***

Orrstown Financial Services believes that it has reasonably estimated the likely costs of integrating the operations of Orrstown Financial Services and Mercersburg Financial Corporation, and the incremental costs of operating as a combined company. However, it is possible that Orrstown Financial Services could incur unexpected transaction costs such as taxes, fees or professional expenses or unexpected future operating expenses such as increased personnel costs or increased taxes, which could result in the merger not being as accretive as expected or having a dilutive effect on the combined company's earnings per share.

***Former Mercersburg Financial Corporation stockholders will have limited ability to influence Orrstown Financial Services' actions and decisions following the merger.***

Following the merger, former Mercersburg Financial Corporation stockholders are expected to hold approximately 11.2% of the outstanding shares of Orrstown Financial Services common stock. As a result, former Mercersburg Financial Corporation stockholders will have limited ability to influence Orrstown Financial Services' business. Former Mercersburg Financial Corporation stockholders will not have separate approval rights with respect to any actions or decisions of Orrstown Financial Services or have separate representation on Orrstown Financial Services board of directors.

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***The shares of Orrstown Financial Services common stock to be received by Mercersburg Financial Corporation stockholders as a result of the merger will have different rights from shares of Mercersburg Financial Corporation common stock.***

Following completion of the merger, Mercersburg Financial Corporation stockholders will no longer be stockholders of Mercersburg Financial Corporation. Mercersburg Financial Corporation stockholders who receive shares of Orrstown Financial Services in the merger will instead be stockholders of Orrstown Financial Services. There will be important differences between your current rights as a Mercersburg Financial Corporation stockholder and the rights to which you will be entitled as an Orrstown Financial Services stockholder. See the section of this proxy statement/prospectus titled **Comparison of Stockholder Rights** beginning on page 91 for a discussion of the different rights associated with Orrstown Financial Services common stock and Mercersburg Financial Corporation common stock.

***The market price of Orrstown Financial Services common stock after the merger may be affected by factors different from those affecting the shares of Orrstown Financial Services or Mercersburg Financial Corporation currently.***

The businesses of Orrstown Financial Services and Mercersburg Financial Corporation differ and, accordingly, the results of operations of the combined company and the market price of the combined company's shares of common stock may be affected by factors different from those currently affecting the independent results of operations and market prices of common stock of each of Orrstown Financial Services and Mercersburg Financial Corporation. The market value of Orrstown Financial Services common stock fluctuates based upon various factors, including changes in the business, operations or prospects of Orrstown Financial Services, market assessments of the merger, regulatory considerations, market and economic considerations, and other factors. Further, the market price of Orrstown Financial Services common stock after the merger may be affected by factors different from those currently affecting the common stock of Orrstown Financial Services or Mercersburg Financial Corporation. For a discussion of the businesses of Mercersburg Financial Corporation and Orrstown Financial Services and of certain factors to consider in connection with those businesses, see the section of this proxy statement/prospectus titled **The Companies' Orrstown Financial Services and Mercersburg Financial Corporation** and the documents incorporated by reference in this proxy statement/prospectus and referred to under **Where You Can Find More Information** beginning on page 99.

***Pending litigation and legal proceedings and the impact of any finding of liability or damages could adversely impact Orrstown Financial Services and its financial condition and results of operations.***

Pending litigation and legal proceedings, and the impact of any finding of liability or damages, could adversely impact Orrstown Financial Services and its financial condition and results of operations. On May 25, 2012, the Southeastern Pennsylvania Transportation Authority (SEPTA) filed a putative class action complaint in the U.S. District Court for the Middle District of Pennsylvania against Orrstown Financial Services, Orrstown Bank, and certain of its current and former directors and executive officers alleging, among other things, that Orrstown Financial Services issued materially false and misleading statements regarding its lending practices and financial results, and did not publicly disclose certain alleged failures of internal controls over loan underwriting, risk management, and financial reporting, in violation of the federal securities laws. Following briefing on defendants' motions to dismiss, the Court dismissed SEPTA's first amended complaint in its entirety. SEPTA then filed a second amended complaint which, after a second round of motions, the Court dismissed in part.

SEPTA's second amended complaint disclosed the existence of a confidential, non-public, fact-finding inquiry regarding the Company conducted by the Securities and Exchange Commission (the SEC). On September 27, 2016, without admitting or denying any of the Commission's findings, Orrstown Financial Services entered into a settlement

agreement with the SEC resolving the investigation of accounting and related matters. As part of the settlement agreement, Orrstown Financial Services agreed to pay a civil money penalty of \$1 million.

On January 31, 2017, the District Court entered a revised Case Management Order in the SEPTA case establishing the schedule for litigation of the surviving claims against the remaining defendants. The Case Management Order, among other things, set the deadlines for the completion of discovery, the filing of motions, and various pre-trial conferences. A class has not yet been certified. While trial had been scheduled to begin on January 7, 2019, on February 28, 2018, the Court issued an Order continuing all case management deadlines until further order of the Court. Discovery in the case is ongoing.

Orrstown Financial Services believes that the allegations of SEPTA's second amended complaint are without merit and intends to vigorously defend itself against those claims. It is not possible at this time to estimate reasonably possible losses, or even a range of reasonably possible losses, in connection with the litigation. See the section of this proxy statement/prospectus titled "Proposal No. 1 The Merger Recommendation of the Mercersburg Financial Corporation Board of Directors and Mercersburg Financial Corporation's Reasons for the Merger" beginning on page 46.



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***Mercersburg Financial Corporation will be subject to business uncertainties and contractual restrictions while the merger is pending.***

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on Mercersburg Financial Corporation. These uncertainties may impair Mercersburg Financial Corporation's ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others who deal with Mercersburg Financial Corporation to seek to change existing business relationships with Mercersburg Financial Corporation. Mercersburg Financial Corporation employee retention and recruitment may be particularly challenging prior to the effective time of the merger, as employees and prospective employees may experience uncertainty about their future roles with the combined company.

The pursuit of the merger and the preparation for the integration may place a significant burden on management and internal resources. Any significant diversion of management attention away from ongoing business and any difficulties encountered in the transition and integration process could affect Mercersburg Financial Corporation's financial results. In addition, the merger agreement requires that Mercersburg Financial Corporation operate in the usual, regular and ordinary course of business and restricts Mercersburg Financial Corporation from taking certain actions prior to the effective time of the merger or termination of the merger agreement without Orrstown Financial Services' consent. These restrictions may prevent Mercersburg Financial Corporation from pursuing attractive business opportunities that may arise prior to the completion of the merger.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This proxy statement/prospectus, including the information incorporated by reference, contains statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements, which are based on certain current assumptions, can generally be identified by the use of the words may, will, should, could, would, plan, potential, estimate, project, believe, intend, anticipate, expect, target and similar expressions. Orrstown Services and Mercersburg Financial Corporation intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of complying with these safe harbor provisions. You should read statements that contain these words carefully because they discuss the relevant company's future expectations, contain projections of the relevant company's future results of operations or financial condition, or state other forward-looking information.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

failure of the parties to satisfy the conditions to complete the proposed merger in a timely manner or at all;

failure of the stockholders of Mercersburg Financial Corporation to approve the merger agreement and the merger;

failure to obtain governmental approvals or the imposition of adverse regulatory conditions in connection with such approvals;

disruptions to the parties' businesses as a result of the announcement and pendency of the merger;

difficulties in achieving cost savings as a result of the merger or in achieving such cost savings within the projected timeframe;

difficulties related to the integration of the businesses following the merger;

changes in general, national or regional economic conditions;

changes in loan default and charge-off rates;

changes in the financial performance and/or condition of borrowers;

changes in customer borrowing and savings habits;

changes in interest rates;

changes in regulations applicable to the financial services industry;

changes in accounting or regulatory guidance applicable to banks; and

competition.

Additional factors that could cause Orrstown Financial Services' results to differ materially from those described in the forward-looking statements can be found in Orrstown Financial Services' filings with the SEC, including Orrstown Financial Services' Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this proxy statement/prospectus or the date of any document incorporated by reference in this proxy statement/prospectus. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this proxy statement/prospectus and attributable to Orrstown Financial Services or Mercersburg Financial Corporation or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, Orrstown Financial Services and Mercersburg Financial Corporation undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this proxy statement/prospectus or to reflect the occurrence of unanticipated events.

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**THE COMPANIES**

**Orrstown Financial Services**

Orrstown Financial Services, Inc., a Pennsylvania corporation, is the holding company for its wholly-owned subsidiaries Orrstown Bank and Wheatland Advisors, Inc. Orrstown Financial Services' principal executive offices are located at 77 East King Street, Shippensburg, Pennsylvania, 17257, with additional executive and administrative offices at 4750 Lindle Road, Harrisburg, Pennsylvania, 17111. Orrstown Financial Services was organized on November 17, 1987, for the purpose of acquiring Orrstown Bank and such other banks and bank-related activities as are permitted by law and desirable. Orrstown Financial Services provides banking and bank-related services through banking offices located in south-central Pennsylvania, principally in Berks, Cumberland, Dauphin, Franklin, Lancaster, Perry, and York Counties and in Washington County, Maryland. Wheatland Advisors was acquired in December 2016 and provides services as a registered investment advisor through its office in Lancaster County, Pennsylvania.

Orrstown Bank was originally organized in 1919 as a state-chartered bank. On March 8, 1988, in a bank holding company reorganization transaction, Orrstown Financial Services acquired 100% ownership of Orrstown Bank.

Orrstown Financial Services' primary activity consists of owning and supervising its subsidiaries, Orrstown Bank and Wheatland Advisors. Day-to-day management is conducted by officers of Orrstown Bank. Orrstown Financial Services has historically derived most of its income through dividends from Orrstown Bank. At March 31, 2018, Orrstown Financial Services had total assets of \$1.6 billion, total stockholders' equity of \$142.6 million, and total deposits of \$1.3 billion.

Orrstown Financial Services has no employees. Its nine officers are employees of Orrstown Bank. On March 31, 2018, Orrstown Bank and Wheatland combined had 335 full-time and 15 part-time employees.

Orrstown Bank is engaged in commercial banking and trust business as authorized by the Pennsylvania Banking Code of 1965. This involves accepting demand, time and savings deposits, and granting loans. Orrstown Bank holds commercial, residential, consumer and agribusiness loans primarily in its market areas of Cumberland, Dauphin, Franklin, Lancaster and Perry Counties in Pennsylvania and Washington County in Maryland; and in contiguous counties. Orrstown Bank maintains a diversified loan portfolio and evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Orrstown Bank upon the extension of credit, is based on management's credit evaluation of the customer pursuant to collateral standards established in Orrstown Bank's credit policies and procedures.

Wheatland Advisors was acquired to supplement Orrstown Bank's trust and wealth management group and to provide opportunities for future growth in these areas.

You can find additional information about the company in its filings with the Securities and Exchange Commission referenced in the section in this proxy statement/prospectus titled "Where You Can Find More Information" on page 99.

**Mercersburg Financial Corporation**

Mercersburg Financial Corporation is the holding company for First Community Bank of Mercersburg, an independent community bank founded in 1909. First Community Bank of Mercersburg has six locations in the communities of Mercersburg, Fort Loudon, Greencastle, Chambersburg and Scotland. First Community Bank of Mercersburg is dedicated to offering services and products that meet the needs of its customers while providing a fair

stockholder return and a strong commitment to the local communities in which it serves.

At March 31, 2018, Mercersburg Financial Corporation had total consolidated assets of approximately \$184.0 million, loans of approximately \$150.2 million, deposits of approximately \$159.9 million and stockholders' equity of approximately \$21.1 million.

Mercersburg Financial Corporation's principal executive offices are located at 12 South Main Street, Mercersburg, Pennsylvania 17236, and its telephone number is (717) 328-3121.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF MERCERSBURG FINANCIAL CORPORATION**

This section is intended to help readers understand the financial performance of Mercersburg Financial Corporation. The information reflected in this section reflects the financial performance of Mercersburg Financial Corporation and its subsidiary, First Community Bank of Mercersburg.

**Overview**

Our results of operations depend mainly on our net interest income, which is the difference between the interest income we earn on our loan and investment portfolios and the interest expense we pay on our deposits and borrowings. Results of operations are also affected by provisions for loan losses and noninterest income. Our noninterest expense consists primarily of compensation and employee benefits, office occupancy and general administrative and data processing expenses. Noninterest expenses have been stable in recent years, and tend to track below peers.

Our results of operations are significantly affected by general economic and competitive conditions, particularly with respect to changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially affect our financial condition and results of operations.

Historically, our business has consisted primarily of originating one-to four-family, five plus family, agricultural and real estate loans secured by property in our market area and investing in municipal investment securities. Typically, one-to four-family loans involve a lower degree of risk and carry a lower yield than commercial real estate, construction and consumer loans. Our loans are primarily funded by low cost deposits such as demand and savings accounts and, to a lesser extent, certificates of deposits. At times, we will utilize advances from the Federal Home Loan Bank of Pittsburgh ( FHLB ). Certificates of deposit typically have a higher interest rate than savings and demand deposit accounts. The combination of these factors, along with our capital level, has resulted in interest rate margins consistently above 4.00% with 4.14% for the year ended December 31, 2017 and 4.16% for the year ended December 31, 2016. Cost of funds ratios remain low at 0.54% for the year ended December 2017 and 0.51% for the year ended December 31, 2016.

**Comparison of Financial Condition at December 31, 2017 and December 31, 2016**

Total assets increased by \$3,374,000, or 1.9%, to \$180,390,000 at December 31, 2017. This increase was principally reflected in a \$2,243,000 increase in loans, a \$693,000 increase in cash and due from banks and a \$461,000 increase in securities available for sale.

Cash and due from banks increased by \$693,000, or 9.0%, to \$8,436,000 at December 31, 2017 due to normal business fluctuations.

Investment securities available for sale, which excludes our investments in FHLB restricted stock, increased \$461,000, or 5.4%, to \$8,960,000 at December 31, 2017, from \$8,499,000 at December 31, 2016. The increase reflected the reinvestment of proceeds from sales and calls reinvested back into the portfolio and new purchases for increased investment opportunities. Investment in FHLB restricted stock increased \$22,000 or 13.8%, from \$158,000 at December 31, 2016 to \$180,000 at December 31, 2017. We are required to hold FHLB stock to participate in FHLB credit products and the FHLB's mortgage partnership finance program ( MPF Loan Program ). The amount held is

governed by the extent of our participation in those programs.

Net loans increased \$2,126,000 from \$148,266,000 at December 31, 2016 to \$150,392,000 at December 31, 2017, or 1.4%. The net change in the loan portfolio occurred in several areas: real estate mortgages increased \$4,910,000, installment loans decreased \$332,000, and demand and time loans decreased \$1,931,000 for the year ended December 31, 2017.

Total liabilities at December 31, 2017 were \$159,355,000, an increase of \$2,980,000, or 1.9%, from \$156,375,000 at December 31, 2016. The increase principally reflected an increase in deposits of \$2,845,000, or 1.8%, from December 31, 2016 to December 31, 2017. There were no borrowed funds outstanding at December 31, 2017 or at December 31, 2016.

Total deposits increased from \$153,766,000 at December 31, 2016 to \$156,611,000 at December 31, 2017. The increase of \$2,845,000, or 1.8%, in total deposits was the result of an increase in demand deposits, a decrease in savings deposits (which include NOW and money market accounts), coupled with an increase in certificates of deposit. Demand deposits increased \$1,767,000, from \$25,512,000 at December 31, 2016 to \$27,279,000 at December 31, 2017, or 6.9%.

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Savings deposits decreased \$1,145,000, from \$81,537,000 at December 31, 2016 to \$80,392,000 at December 31, 2017, or 1.4%. NOW and money market accounts decreased \$2,126,000 or 3.4% during 2017. Certificates of deposit increased \$2,222,000, or 4.8%, from \$46,718,000 at December 31, 2016 to \$48,940,000 at December 31, 2017. The increase in certificates of deposit included an increase in certificates of deposit over \$250,000 of \$1,057,000, or 20.2%.

Stockholders' equity was \$21,035,000, or 11.7%, of total assets, at December 31, 2017, compared to \$20,641,000, or 11.7%, of total assets, at December 31, 2016, and reflected \$839,000 in 2017 net income and dividends paid of \$454,000 during the year. The dividends paid marked a 16.7%, or \$65,000, increase from the year ended December 31, 2016.

**Comparison of Operating Results for the Years Ended December 31, 2017 and December 31, 2016**

**Net Income.** Net income decreased \$204,000, or 19.6%, to \$839,000 for the year ended December 31, 2017, from \$1,043,000 for the year ended December 31, 2016. The decrease primarily reflected the enacted income tax rate change as the result of the Tax Cuts and Jobs Act, which resulted in an increase in 2017 deferred tax expense of \$404,000. Net interest income increased by \$188,000, or 3.0%, to \$6,540,000; total other expenses increased \$165,000, or 2.9% to \$5,764,000; and the provision for loan losses decreased by \$297,000, or 66.1%, to \$153,000 for the year ended December 31, 2017 compared to the year ended December 31, 2016.

**Net Interest Income.** The \$188,000 increase from 2016 to 2017 reflected an increase of \$258,000 in interest and dividend income to \$7,243,000 in the year ended December 31, 2017, from \$6,985,000 in the year ended December 31, 2016, net of an increase of \$70,000 in interest expense to \$703,000 for the year ended December 31, 2017 from \$633,000 for the year ended December 31, 2016. The increase in interest and dividend income was mainly the result of a \$2,243,000 increase in the balance of loans in the loan portfolio. Interest expense increased primarily as a result of the increase in average rates paid on certificates of deposits, from 0.91% in 2016 to 0.95% in 2017.

For the year ended December 31, 2017, the average yield on interest-earning assets was 4.58%, compared to 4.56% for the year ended December 31, 2016. The average cost of interest-bearing liabilities was 0.54% for the year ended December 31, 2017, compared to 0.51% for the year ended December 31, 2016. The average balance of interest-earning assets increased by \$4,450,000 to \$161,717,000 for the year ended December 31, 2017, compared to \$157,267,000 for the year ended December 31, 2016. The average balance of interest-bearing liabilities increased by \$5,516,000 to \$129,962,000 for the year ended December 31, 2017, from \$124,446,000 for the year ended December 31, 2016.

The average interest rate spread was 4.04% for 2017 compared to 4.05% for 2016. The average net interest margin was 4.14% for 2017, compared to 4.16% for 2016.

**Provision for Loan Losses.** The provision for loan losses decreased \$297,000, or 66.1%, to \$153,000 for the year ended December 31, 2017 from \$450,000 for the year ended December 31, 2016. The ratio of nonperforming assets/total assets was 0.33% for the year ended December 31, 2017 and the ratio of net charge offs/average loans was 0.02% for the year ended December 31, 2017.

**Noninterest Income.** Noninterest income was \$1,013,000 for the year ended December 31, 2017, which was an increase of \$38,000, or 3.8%, from \$975,000 for the year ended December 31, 2016. This increase resulted primarily from the gain on sale of loans, as part of the MPF Loan Program, of \$196,000 in 2017 compared to \$149,000 in 2016.



**Noninterest Expense.** Noninterest expense increased by \$165,000, or 2.9%, to \$5,764,000 for the year ended December 31, 2017 from \$5,599,000 for the year ended December 31, 2016. The increase was principally in salaries and benefits, hospitalization and item processing services. The increase in salaries and benefits of \$92,000, or 2.9%, was a combination of salary increases, officer incentive compensation, and hospitalization cost increases. The increase in item processing services of \$24,000 was primarily due to increased transaction volume and a 3% service fee increase.

**Income Taxes.** Deferred income tax expense was impacted by the enacted income tax rate change from 34% to 21% for tax years beginning on or after January 1, 2018 as the result of the Tax Cuts and Jobs Act enacted in December 2017. Included in deferred tax expense for 2017 was \$404,000 related to the remeasurement of net deferred tax assets due to the tax rate change. Taxes also increased in 2017 compared to 2016 due to increased pretax income.

**Table of Contents****Average Balances and Yields**

The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are based upon daily averages, unless otherwise noted. The yields set forth include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense. All averages and yields reflect activity at the bank level.

(In Thousands)	December 2017			December 2016		
	Average Balance (1)	Tax-equivalent Interest (2)	Taxable- equivalent Rate	Average Balance (1)	Tax-equivalent Interest (2)	Taxable- equivalent Rate
<b>Assets:</b>						
Installment loans	\$ 505	\$ 17	3.37%	\$ 856	\$ 31	3.62%
Mortgages	131,095	6,044	4.61%	126,018	5,756	4.57%
Time/Demand	17,825	830	4.66%	17,035	802	4.71%
First reserve	318	24	7.55%	307	22	7.17%
Tax free loans	2,437	89	3.67%	2,872	98	3.43%
Investment securities	8,783	380	4.33%	9,807	452	4.61%
Fed funds sold	358	7	1.96%	0		0.00%
FHLB stock	190	6	3.16%	166	6	3.61%
FHLB cash account	206	2	0.97%	206	1	0.49%
<b>Total interest earning assets</b>	<b>161,717</b>	<b>7,399</b>	<b>4.58%</b>	<b>157,267</b>	<b>7,168</b>	<b>4.56%</b>
Noninterest earning assets	16,765			14,724		
<b>Total assets</b>	<b>\$ 178,482</b>			<b>\$ 171,991</b>		
<b>Liabilities and Equity:</b>						
Interest bearing demand deposits	\$ 29,603	57	0.19%	\$ 26,610	51	0.19%
Money market deposits	31,960	162	0.51%	33,708	149	0.44%
Savings deposits	20,241	30	0.15%	19,845	29	0.15%
Certificates of deposit	38,785	367	0.95%	35,089	318	0.91%
IRA	8,847	79	0.89%	9,179	86	0.94%
Borrowed funds	526	8	1.52%	15		0.00%
<b>Total interest bearing liabilities</b>	<b>129,962</b>	<b>703</b>	<b>0.54%</b>	<b>124,446</b>	<b>633</b>	<b>0.51%</b>
Noninterest bearing liabilities and equity	48,520			47,545		
<b>Total liabilities and equity</b>	<b>\$ 178,482</b>			<b>\$ 171,991</b>		
Tax-equivalent net interest income / net interest spread		6,696	4.04%		6,535	4.05%

Tax-equivalent net interest margin <sup>(3)</sup>	4.14%	4.16%
Tax-equivalent adjustment	(156)	(183)
Net interest income	\$ 6,540	\$ 6,352
Net interest earning assets	\$ 31,755	\$ 32,821
Average interest earning assets to average interest bearing liabilities	124.4%	126.4%

- (1) Average loan balances include non-accrual loans.
- (2) Yields and interest income on tax-exempt assets have been computed on a fully tax-equivalent basis assuming a 34% tax rate in 2017 and 2016.
- (3) Tax-equivalent net interest margin equals tax-equivalent net interest income divided by average earning assets..

**Table of Contents****Comparison of Financial Condition at March 31, 2018 and December 31, 2017**

Total assets increased by \$3,576,000, or 2.0%, to \$183,966,000 at March 31, 2018 from December 31, 2017. The increase was the result of a \$6,379,000 increase in federal funds sold, and decreases of \$676,000 in securities available for sale, \$475,000 in cash and due from banks, and \$1,799,000 in net loans.

Cash and due from banks decreased by \$475,000, or 5.5%, to \$8,171,000 at March 31, 2018 due to normal business fluctuations.

Investment securities available for sale decreased \$676,000, or 7.6%, to \$8,284,000 at March 31, 2018 from \$8,960,000 at December 31, 2017. The decrease reflected reinvestment of calls or maturities back into the portfolio, no reinvestment of proceeds from sales and no new purchases.

Federal funds sold increased from \$0 at December 31, 2017 to \$6,379,000 at March 31, 2018. Federal funds sold increased due to deposit increases, as well as the decline in loan volume.

Total net loans decreased \$1,799,000 from \$150,392,000 at December 31, 2017 to \$148,593,000 at March 31, 2018, or 1.2%. The net decrease in the loan portfolio was principally in time and demand loans, which decreased \$1,764,000.

Total liabilities at March 31, 2018 were \$162,838,000, an increase of \$3,483,000, or 2.2%, from \$159,355,000 at December 31, 2017. The increase principally reflected an increase in deposits of \$3,289,000, or 2.1%, from December 31, 2017 to March 31, 2018. There were no borrowed funds at March 31, 2018 or at December 31, 2017.

Total deposits increased from \$156,611,000 at December 31, 2017 to \$159,900,000 at March 31, 2018. The increase of \$3,289,000, or 2.1%, in total deposits was the result of an increase in demand deposits, a decrease in savings deposits, which include NOW and money market accounts coupled with an increase in certificates of deposit. Demand deposits increased \$238,000, or 0.9%, from \$27,279,000 at December 31, 2017 to \$27,517,000 at March 31, 2018. Savings deposits decreased \$163,000, or 0.2%, from \$80,392,000 at December 31, 2017 to \$80,229,000 at March 31, 2018. NOW and money market accounts decreased \$906,000 or 1.5%. Certificates of deposit increased \$3,214,000, or 6.6%, from \$48,940,000 at December 31, 2017 to \$52,154,000 at March 31, 2018.

Stockholders' equity was \$21,128,000, or 11.5% of total assets, at March 31, 2018 compared to \$21,035,000, or 11.7% of total assets, at December 31, 2017, and principally reflected net income of \$291,000 and dividends paid of \$113,000 during the first quarter of 2018.

**Comparison of Operating Results for the Three Months Ended March 31, 2018 and March 31, 2017**

**Net Income.** Net income increased \$27,000, or 10.6%, to \$291,000 for the three months ended March 31, 2018, compared to \$264,000 for the three months ended March 31, 2017. The increase primarily reflected the income tax rate change under the Tax Cuts and Jobs Act enacted in December 2017, which changed the corporate tax rate to 21% for the three months ended March 31, 2018 compared to 34% for the three months ended March 31, 2017. Net interest income increased \$20,000, or 1.3%, to \$1,641,000 for the three months ended March 31, 2018, compared to \$1,621,000 for the three months ended March 31, 2017. The provision for loan losses decreased \$35,000, with a provision expense booked for the three months ended March 31, 2017, and no provision booked for the three months ended March 2018. Noninterest expenses increased by \$71,000 or 5.0% for the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

**Net Interest Income.** The \$20,000 increase primarily reflected an increase of \$47,000 in interest and dividend income to \$1,837,000 in the three months ended March 31, 2018, compared to \$1,790,000 in the three months ended March 31, 2017, and an increase of \$27,000 in interest expense to \$196,000 for the three months ended March 31, 2018 from \$169,000 for the three months ended March 31, 2017. The increase in interest and dividend income was mainly the result of improved yields on earning assets with a 4.39% yield for the three months ended March 31, 2018 compared to a 4.31% yield for the three months ended March 31, 2017. The interest expense increase was a result of an increase in deposit yields as well as the change in deposit mix from NOW and money market accounts into certificates of deposit. The certificate of deposit average rate paid increased to 1.20% for the three months ended March 31, 2018, from 0.94% for the three months ended March 31, 2017.

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For the three months ended March 31, 2018, the average yield on interest-earning assets was 4.39%, compared to 4.31% for the three months ended March 31, 2017. The average cost of interest-bearing liabilities was 0.63% for the three months ended March 31, 2018, compared to 0.55% for the three months ended March 31, 2017. The average interest rate spread was 3.76% for both the three months ended March 31, 2018 and the three months ended March 31, 2017. The average net interest margin was 4.01% for the three months ended March 31, 2018, compared to 4.04% for the three months ended March 31, 2017.

**Provision for Loan Losses.** There was no provision for loan losses for the three months ended March 31, 2018 compared to \$35,000 for the three months ended March 31, 2017. The ratio of nonperforming assets to total assets was 0.38% and the ratio of net charge offs/average loans was 0.04% for three months ended March 31, 2018.

**Noninterest Income.** Noninterest income was \$199,000 for the three months ended March 31, 2018, which was an increase of \$11,000 or 6.1% from \$188,000 for the three months ended March 31, 2017. There was no significant area of increase.

**Noninterest Expense.** Noninterest expense increased by \$71,000 or 5.0% to \$1,500,000 for the three months ended March 31, 2018, compared to \$1,429,000 for the three months ended March 31, 2017. The increase was principally in salaries and benefits and hospitalization.

**Income Taxes.** Income tax expense was impacted by the enacted income tax rate change from 34% to 21% for tax years beginning on or after January 1, 2018 as the result of the Tax Cuts and Jobs Act. Income tax expense for the three months end March 31, 2018 was \$49,000 compared to \$81,000 for the three months ended March 31, 2017, with only a modest change in pretax income.

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**THE SPECIAL MEETING OF MERCERSBURG FINANCIAL CORPORATION STOCKHOLDERS**

**Date, Time and Place of the Special Meeting of Mercersburg Financial Corporation Stockholders**

The special meeting of stockholders of Mercersburg Financial Corporation will be held at the Mercersburg American Legion Post 517, 100 Keefer Drive, Mercersburg, Pennsylvania, on September 11, 2018 at 10:00 a.m., local time.

**Actions to be Taken at the Special Meeting**

At the special meeting, Mercersburg Financial Corporation stockholders as of the record date will be asked to consider and vote on the following proposals:

1. To consider and vote upon a proposal to approve the merger agreement;
2. To consider and vote upon a proposal to approve one or more adjournments of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting, or at any adjournment or postponement of that meeting, to approve the merger agreement; and
3. To consider and act upon such other matters as may properly come before the special meeting or any adjournment or postponement of that meeting.

**Votes Required to Transact Business at the Special Meeting**

A quorum of Mercersburg Financial Corporation stockholders is necessary to hold a valid meeting. If the holders of at least a majority of the shares of Mercersburg Financial Corporation common stock entitled to be cast are present in person or represented by proxy at the special meeting, a quorum will exist. Mercersburg Financial Corporation will include proxies marked as abstentions as present at the meeting in determining whether a quorum is present.

**Record Date; Outstanding Shares; Shares Entitled to Vote**

You can vote at the special meeting if you owned Mercersburg Financial Corporation common stock at the close of business on July 23, 2018, the record date for the special meeting. As of the close of business on the record date, there were 810,080 shares of Mercersburg Financial Corporation common stock outstanding. Each holder of Mercersburg Financial Corporation common stock is entitled to one vote for each share of Mercersburg Financial Corporation common stock he, she or it owned as of the record date.

**Vote Required to Approve Each Proposal**

*Approval of the Merger.* Approval of this proposal requires the affirmative vote of holders of at least 60% of the outstanding shares of Mercersburg Financial Corporation common stock entitled to vote at the special meeting. If you abstain or do not vote, it will have the same effect as voting **AGAINST** approval of the merger agreement and the merger.

*Approval of Adjournments of the Special Meeting.* Approval of this proposal requires the affirmative vote of a majority of the votes cast at the special meeting. If you do not vote, either in person or by proxy, it will have no effect

on the outcome of the proposal. Proxies marked abstentions will have the same effect as a vote **AGAINST** this proposal.

### **How to Vote Shares Held Directly by the Stockholder**

If you are the record holder of your shares, you may vote your shares by:

***Over the Internet.*** You may vote online by going to the website of Computershare at [www.investorvote.com/MCBG](http://www.investorvote.com/MCBG). Have your proxy card in hand when you access the website and follow the instructions to vote your shares. You must submit your Internet proxy before 12:00 a.m., Eastern Time, on September 11, 2018, the day of the special meeting, for your proxy to be valid and your vote to count.

***By Mail.*** You may vote by completing, signing, dating and returning the proxy card in the enclosed postage-paid envelope. Computershare, our tabulator, must receive your mailed proxy before 12:00 a.m., Eastern Time, on September 11, 2018, the day of the special meeting, for your proxy to be valid and your vote to count.



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***By Telephone.*** You may vote by telephone by calling 1-800-652-VOTE (8683). Have your proxy card in hand when you call and then follow the instructions to vote your shares. You must submit your telephonic proxy before 12:00 a.m., Eastern Time, on September 11, 2018, the day of the special meeting, for your proxy to be valid and your vote to count.

If you plan to attend the special meeting and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must bring additional documentation from the broker, bank or other nominee in order to vote your shares.

## **How to Vote Shares Held by a Broker, Bank or Other Nominee**

If your shares are held through a broker, bank or other nominee, you may vote your shares by following the voting instructions provided by your broker, bank or other nominee. To be able to vote shares not registered in your own name in person at the special meeting, contact your broker, bank or other nominee who holds your shares to obtain a broker's proxy card and bring it with you to the special meeting, along with a bank or brokerage statement or a letter from your nominee evidencing your beneficial ownership of our stock and a form of personal identification. A broker's proxy is not the form of proxy enclosed with this proxy statement/prospectus.

## **Broker Non-Votes and Abstentions**

If you are the beneficial owner of shares held in street name by a broker, bank or other nominee and you do not give instructions to the broker, bank or other nominee on how to vote your shares at the special meeting, your broker, bank or other nominee ***may not*** vote your shares with respect to any of the proposals. Proxies submitted by a broker that do not exercise this voting authority are also known as broker non-votes.

An abstention is a decision by a stockholder to take a neutral position on a proposal being submitted to stockholders at a meeting.

## **Effect of Broker Non-Votes and Abstentions on Quorum and the Votes Required at the Special Meeting**

The affirmative vote of holders of at least 60% of the outstanding shares of Mercersburg Financial Corporation common stock entitled to vote at the special meeting is required to approve the merger agreement and the affirmative vote of holders of a majority of the votes cast at the special meeting is required to approve any adjournment proposal. Because broker non-votes and abstentions are not considered a vote approving any proposal submitted at the special meeting, broker non-votes and abstentions will have the same effect as a vote against the proposal to approve the merger agreement. However, broker non-votes will have no effect on the outcome of the adjournment proposal, but abstentions will have the same effect as a vote against the adjournment proposal.

## **How Will Shares be Voted**

All shares represented by valid unrevoked proxies will be voted in accordance with the instructions on the proxy card. If you return a signed proxy card, but make no specification on the card as to how you want your shares voted, your proxy will be voted **FOR** approval of the foregoing proposals. The board of directors of Mercersburg Financial Corporation is presently unaware of any other matter that may be presented for action at the special meeting of stockholders. If any other matter does properly come before the special meeting, the board of directors of Mercersburg Financial Corporation intends that shares represented by properly submitted proxies will be voted, or not voted, by and in accordance with the directions of the Mercersburg Financial Corporation board of directors.



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### **Revocation of Proxies**

A proxy may be revoked at any time before it is voted at the special meeting by:

Filing a written revocation of the proxy with the Secretary of Mercersburg Financial Corporation, Larry L. Nair, 12 South Main Street, Mercersburg, Pennsylvania 17236;

Submitting a new signed proxy card by mail bearing a later date, or by submitting a new vote over the Internet or by telephone (any earlier proxies will be revoked automatically); or

Attending the special meeting and voting in person provided you are the holder of record of your shares and have filed a written revocation of your grant of proxy with the Secretary of Mercersburg Financial Corporation as indicated above.

If you hold your shares in the name of a broker, bank or other nominee, you will need to contact your nominee in order to revoke your proxy. If you hold your shares in street name through a broker or bank, you may only change your vote in person if you have a legal proxy in your name from Broadridge Financial Solutions or your broker or bank.

### **Proxy Solicitation**

The board of directors of Mercersburg Financial Corporation is soliciting these proxies. Mercersburg Financial Corporation will pay the expenses of soliciting proxies to be voted at the special meeting. In addition to sending you this proxy statement/prospectus, some of Mercersburg Financial Corporation's directors and officers as well as management and non-management employees may contact you by telephone, mail, e-mail, or in person.

### **Dissenters' Rights**

Dissenters' rights are statutory rights that enable stockholders who object to extraordinary transactions, such as mergers, to demand that the corporation pay such stockholders the fair value of their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to stockholders in connection with the extraordinary transaction. Dissenters' rights are not available in all circumstances and exceptions to those rights are set forth in the Pennsylvania Business Corporation Law (PBCL). The term fair value in this instance means the value of a share of Mercersburg Financial Corporation's common stock immediately before the day of the merger, taking into account all relevant factors, but excluding any appreciation or depreciation in anticipation of the merger.

Mercersburg Financial Corporation stockholders are entitled to dissenters' rights in connection with the merger.

Set forth below is a summary of the terms under the Pennsylvania Business Corporation Law, describing the steps that must be taken in order to exercise dissenting stockholder rights. Any Mercersburg Financial Corporation stockholder considering exercising the stockholder's right to dissent from the proposed action and receive the fair value of his shares should read both this summary and the full text of the law, which is attached hereto as *Annex B*. Written notices or demands that are required concerning the exercise of dissenters' rights should be sent to Mercersburg Financial Corporation, 12 South Main Street, Mercersburg, Pennsylvania 17236 Attention: Corporate Secretary or at such other address as may be indicated in subsequent instructions related to the exercise of such rights.

Any Mercersburg Financial Corporation stockholder who wishes to dissent and exercise rights to an appraisal must:

file a written notice of intention to demand payment of the fair value of his or her shares (if the merger is completed), prior to the vote of stockholders on the merger at the special meeting;

make no change in the stockholder's beneficial ownership of stock from the date of the written notice through the day of the merger; and

not vote his or her stock for approval of the merger.

Voting in favor of the merger constitutes a waiver of dissenters' rights of appraisal. Further, neither a proxy marked against approval of the merger nor a vote at the special meeting against approval of the merger satisfies the necessary written notice of intention to dissent. A separate written notice must be filed with Mercersburg Financial Corporation prior to the vote of stockholders on the merger, as described above.

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If the merger is approved by the required vote of stockholders, Mercersburg Financial Corporation will mail a notice to all dissenters who gave due notice of intention to demand payment of fair value and who did not vote for approval of the plan of merger. The notice will state where and when the dissenting stockholder must deliver a written demand for payment and where certificates for stock should be deposited in order to obtain payment. The notice will include a form for demanding payment and a copy of the law. The time set for receipt of the demand for payment and deposit of stock certificates will be not less than 30 days from the date of mailing of the notice.

Any dissenting Mercersburg Financial Corporation stockholder who wishes to exercise appraisal rights must take each step in the indicated order and in strict compliance with the statute to preserve dissenters' rights. Any such stockholder who fails to follow the steps will lose his or her right to dissent and will, instead, receive the merger consideration.

Promptly after the merger, Orrstown Financial Services will send dissenters, who have timely filed the demand for payment and deposited their stock certificates, the amount that Orrstown Financial Services estimates to be the fair value of the stock. The remittance or notice will be accompanied by:

a closing balance sheet and statement of income of Mercersburg Financial Corporation for a fiscal year ending not more than 16 months before the date of remittance or notice together with the latest available interim financial statements;

a statement of Orrstown Financial Services' estimate of the fair value of Mercersburg Financial Corporation common stock; and

a notice of the right of the dissenter to demand supplemental payment, accompanied by a copy of the law. If a dissenting stockholder believes that the amount stated or remitted by Orrstown Financial Services is less than the fair value of the stock, the dissenter may send an estimate of the fair value of the stock to Orrstown Financial Services. If Orrstown Financial Services remits payment of the estimated value of a dissenter's stock and the dissenter does not file his or her own estimate within 30 days after Orrstown Financial Services mailed its remittance, the dissenter will be entitled to no more than the amount remitted by Orrstown Financial Services.

If any demands for payment remain unsettled within 60 days after the latest to occur of: (1) the merger, (2) the timely receipt of any stockholder demands for payment, or (3) the timely receipt of any estimates by dissenters of the fair value, then Orrstown Financial Services may file an application in the Court of Common Pleas of Cumberland County requesting that the court determine the fair value of the stock. If this happens, all dissenters, no matter where they reside, whose demands have not been settled, shall be made parties to the proceeding. In addition, a copy of the application will be delivered to each dissenter.

If Orrstown Financial Services fails to file the application, then any dissenter, on behalf of all dissenters who have made a demand and who have not settled their claim may file an application in the name of Mercersburg Financial Corporation at any time within the 30-day period after the expiration of the 60-day period and request that the Cumberland County Court determine the fair value of the shares. The fair value determined by the court may, but need not, equal the dissenters' estimates of fair value. If no dissenter files an application, then each dissenter entitled to do so shall be paid Orrstown Financial Services' estimate of the fair value of the common stock and no more, and may bring an action to recover any amount not previously remitted, plus interest at a rate the court finds fair and equitable.

The costs and expenses of any valuation proceedings in court, including the reasonable compensation and expenses of any appraiser appointed by the court to recommend a decision on the issue of fair value, will be determined by the court and assessed against Mercersburg Financial Corporation except that any part of the costs and expenses may be apportioned and assessed by the court against all or any of the dissenters who are parties and whose action in demanding supplemental payment the court finds to be arbitrary, vexatious or in bad faith. In addition, dissenting stockholders generally will be responsible for their own costs and expenses, including, without limitation, the fees and expenses of their own legal counsel and experts. Investment banker opinions as to the fairness, from a financial point of view, of the consideration payable in a transaction such as the merger are not opinions as to, and do not address in any respect, fair value under the PBCL.

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### **Stock Certificates**

**You should not send in any certificates representing Mercersburg Financial Corporation common stock at this time.** It is expected that at least 20 business days prior to the anticipated closing date of the merger you will receive instructions for the exchange of certificates representing Mercersburg Financial Corporation common stock. For more information regarding these instructions, please see the section of this proxy statement/prospectus titled "The Merger Agreement Election Procedures" beginning on page 65.

### **Proposal to Approve Adjournment of the Special Meeting**

Mercersburg Financial Corporation is also submitting a proposal for consideration at the special meeting to authorize the named proxies to approve one or more adjournments of the special meeting if there are not sufficient votes to approve the merger agreement and the merger at the time of the special meeting. Even though a quorum may be present at the special meeting, it is possible that Mercersburg Financial Corporation may not have received sufficient votes to approve the merger agreement and the merger by the time of the special meeting. In that event, Mercersburg Financial Corporation would need to adjourn the special meeting in order to solicit additional proxies.

To allow the proxies that have been received by Mercersburg Financial Corporation at the time of the special meeting to be voted for an adjournment, if necessary, Mercersburg Financial Corporation is submitting a proposal to approve one or more adjournments, and only under those circumstances, to you for consideration. If the new date, time and place are announced at the special meeting before the adjournment, Mercersburg Financial Corporation is not required to give notice of the time and place of the adjourned meeting, unless the board of directors fixes a new record date for the special meeting.

The adjournment proposal relates only to an adjournment of the special meeting occurring for purposes of soliciting additional proxies for approval of the merger agreement and the merger in the event that there are insufficient votes to approve that proposal. The Mercersburg Financial Corporation board of directors retains full authority to the extent set forth in the Mercersburg Financial Corporation bylaws and applicable law to adjourn the special meeting for any other purpose, or to postpone the special meeting before it is convened, without the consent of any Mercersburg Financial Corporation stockholders.

### **Share Ownership of Management; Voting Agreements**

In connection with the merger agreement, Mercersburg Financial Corporation's directors and executive officers executed voting agreements with Orrstown Financial Services under which they agreed to vote their shares in favor of the merger. As of the record date, there were 41,598 shares of Mercersburg Financial Corporation common stock, or approximately 5.1% of the outstanding shares, subject to the voting agreements. See the section of this proxy statement/prospectus titled "The Voting Agreements" beginning on page 86 for further information regarding these voting agreements.

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**PROPOSAL NO. 1 THE MERGER**

**General**

Under the terms and conditions set forth in the merger agreement, Mercersburg Financial Corporation will merge with and into Orrstown Financial Services. The surviving corporation in the merger will be Orrstown Financial Services. Pursuant to the merger agreement, if the merger agreement is approved by the holders of at least 60% of the shares of Mercersburg Financial Corporation common stock outstanding and entitled to vote at the special meeting and the merger is subsequently completed, each outstanding share of Mercersburg Financial Corporation common stock will be converted into the right to receive at the election of the holder thereof either (1) \$40.00 in cash, without interest, or (2) 1.5291 shares of Orrstown Financial Services common stock subject to proration to ensure that in the aggregate 85% of Mercersburg Financial Corporation common stock will be converted to Orrstown Financial Services common stock and the remaining 15% of Mercersburg Financial Corporation common stock will be converted to cash.

No fractional shares of Orrstown Financial Services common stock will be issued in connection with the merger. Instead, each Mercersburg Financial Corporation stockholder will receive an amount of cash, in lieu of any fractional share, based on the average daily closing price of Orrstown Financial Services common stock as reported on NASDAQ for the ten consecutive trading day period ending on the fifth business day prior to the closing date of the merger, rounded to the nearest whole cent.

The exchange ratio was determined based on the 15-day volume weighted average stock price of Orrstown Financial Services common stock for the measurement period, which was \$26.16 per share, which would have resulted in Mercersburg Financial Corporation stockholders receiving Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$40.00. Based on the closing price of Orrstown Financial Services common stock of \$27.00 per share on July 24, 2018, the most recent practicable date prior to the mailing of this proxy statement/prospectus, Mercersburg Financial Corporation stockholders would receive Orrstown Financial Services common stock and cash in lieu of fractional shares in the merger with an implied value per share equal to \$41.09 (assuming each stockholder of Mercersburg Financial Corporation receives merger consideration consisting of 85% Orrstown Financial Services common stock and 15% cash).

Mercersburg Financial Corporation has the right to terminate the merger agreement if the volume weighted average stock price of Orrstown Financial Services common stock as reported on NASDAQ for the 15 consecutive trading days immediately preceding the date on which all required regulatory and stockholder approvals have been obtained (the determination date), is less than \$20.928 per share and Orrstown Financial Services common stock underperforms the NASDAQ Bank Index by more than 20% between May 29, 2018 and the determination date. If Mercersburg Financial Corporation exercises this termination right, Orrstown Financial Services will have the option to increase the amount of Orrstown Financial Services common stock to be provided to Mercersburg Financial Corporation stockholders to an amount which, when multiplied by the volume weighted average price of Orrstown Financial Services common stock as reported on NASDAQ for the fifteen consecutive trading days immediately preceding the determination date, equals the lesser of (1) \$40.00 or (2) \$40.00 multiplied by the index ratio. If Orrstown Financial Services elects to increase the stock consideration pursuant to the preceding sentence, no termination will occur.

**Background of the Merger**

The board of directors of Mercersburg Financial Corporation held off-site strategic planning meetings in October 2014, 2015, 2016 and 2017. While the board of directors recognized that Mercersburg Financial Corporation would be more likely to grow larger and more quickly through a business combination with a strategic acquirer or a strategic merger of equals than as a standalone independent community bank, it also determined that Mercersburg Financial



Corporation was doing well as a standalone independent community bank in comparison to its peers and was making a significant contribution to its local Mercersburg community, both as a source of economic and financial support and as a source of employment. As a result, the board of directors believed that while Mercersburg Financial Corporation could continue to be successful as a standalone independent community bank, a strategic merger of equals would be a preferable alternative growth strategy to a business combination with a strategic acquirer because a strategic merger of equals would be more likely to enable the Mercersburg Financial Corporation board of directors and management team to stay meaningfully involved in the management and operation of the combined institution and to thereby assure continuing involvement in and support for the local Mercersburg community than would a business combination with a larger institution.

In 2017, Mercersburg Financial Corporation entered into separate discussions as more fully described below with two institutions regarding a possible strategic transaction. In the spring of 2017, Robert J. Fignar, the President and Chief Executive Officer of Mercersburg Financial Corporation, met with the chief executive officer of one of the two institutions

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( Party A ) to discuss what a combined institution might look like. Although Party A was a larger institution than Mercersburg Financial Corporation, the two discussed incorporating aspects of a merger of equals. Afterwards, in order to facilitate further discussions, the chief executive officer of Party A delivered a written term sheet to Mercersburg Financial Corporation. The Mercersburg Financial Corporation board of directors determined, however, that the terms set forth in the term sheet did not accurately represent what had been discussed at the earlier meeting of the chief executive officers and were more representative of terms the board of directors would have anticipated receiving from a strategic acquirer than from a partner in a merger of equals. When considered together with the limited trading volume for the common stock of Party A, the Board determined that it would be more likely to receive a better deal in a business combination with a larger institution having greater trading volume for its common stock than in the transaction proposed by Party A and discontinued discussions with Party A.

Later in the summer of 2017, Mr. Fignar and William E. Sanders, Jr., the Chairman of the Board of Mercersburg Financial Corporation, met with the chief executive officer and chairman of the board of the second institution ( Party B ). Mercersburg Financial Corporation and Party B had been having on again, off again discussions about a possible transaction between them over the past five or so years. The summer of 2017 meeting was followed by a social get acquainted meeting between the boards of directors of the two institutions and, in October, the Mercersburg Financial Corporation board of directors focused on what a merger of equals between the two institutions would look like at its annual strategic planning meeting. After a number of attempts to schedule follow up meetings with Party B were unsuccessful, Party B informed Mercersburg Financial Corporation that it would not be interested in having serious discussions about a transaction for a few more years.

In December 2017, Mr. Fignar received a telephone call from Thomas R. Quinn, Jr., the President and Chief Executive Officer of Orrstown Financial Services, during which they agreed to meet. The meeting was scheduled for February 1, 2018. At the February 1, 2018 meeting, Mr. Quinn outlined Orrstown Financial Services vision of a combined company that would include Mercersburg Financial Corporation.

On February 7, 2018, the board of directors of Mercersburg Financial Corporation held a special meeting at which Mr. Fignar reported on his earlier meeting with Mr. Quinn. The board of directors directed Mr. Fignar to engage in further discussions with Mr. Quinn.

Additional meetings involving Mr. Fignar and Mr. Quinn occurred on February 15, 2018, which included David Boyle, Chief Financial Officer of Orrstown Financial Services; March 15, 2018, which included additional executive officers of Orrstown Financial Services; and April 9, 2018, which included Mr. Sanders and Joel R. Zullinger, the Chairman of the Board of Orrstown Financial Services.

Following the meeting on April 9, 2018, Orrstown Financial Services delivered to Mercersburg Financial Corporation proposed forms of a mutual confidentiality and non-disclosure agreement and a letter of intent. The letter of intent proposed for Mercersburg Financial Corporation to merge with and into Orrstown Financial Services with Orrstown Financial Services continuing as the surviving corporation, and for Mercersburg Financial Corporation stockholders to receive merger consideration in the amount of \$40.00 per share for each share of Mercersburg Financial Corporation common stock held, in the form of cash or Orrstown Financial Services common stock, based upon a floating exchange ratio and subject to a collar limiting the maximum number of shares issuable by Orrstown Financial Services in the transaction. The amount of cash consideration payable also would be limited to not more than 15% of the total amount of merger consideration.

A special meeting of the board of directors of Mercersburg Financial Corporation was held on April 18, 2018 to review the terms and conditions proposed by Orrstown Financial Services in the letter of intent. Also in attendance at the invitation of the board of directors were representatives of the law firm of Stevens & Lee, legal counsel to

Mercersburg Financial Corporation, and Ambassador. The representative of Stevens & Lee made a presentation regarding the fiduciary duties of directors under the Pennsylvania Business Corporation Law. The representative of Ambassador reviewed financial aspects of the floating exchange ratio proposed by Orrstown Financial Services as compared to a fixed exchange ratio or a collar setting both a maximum and minimum number of shares issuable by Orrstown Financial Services in the transaction. The representative of Ambassador also provided information regarding merger transaction pricing in the banking industry over a four year period from 2014 through 2017 on both national and Pennsylvania bases and information regarding six potential transaction partners, including Orrstown Financial Services and Party A, that had been identified in consultation with Mr. Fignar, which information included their respective apparent capacity to pay. There was also a discussion of the strengths and weaknesses generally associated with a negotiated transaction and an auction process.

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The board of directors considered Orrstown Financial Services' proposed \$40.00 per share price in relation to the five other potential transaction partners discussed by Ambassador and believed that none of the other potential transaction partners appeared likely to offer a materially better price. The board observed that two of the other potential transaction partners appeared to have the capacity to pay the same or more than Orrstown Financial Services, but that one of the two was Party A and the other of two ( Party C ) was then occupied with completing a similar transaction with another party. The board noted that Orrstown Financial Services and Party C were the only two potential partners having a stock trading on NASDAQ, with the others, including Party A, trading in the over-the-counter market, and that two of the other potential partners, including Party C, were then occupied with completing similar transactions with other parties. The board of directors also discussed Orrstown Financial Services' proposals for severance pay for Mercersburg Financial Corporation employees who would not be retained by Orrstown Financial Services after the closing of the transaction, a retention bonus fund and the employment of Mr. Fignar as Orrstown Bank's Southern Region President. The board of directors discussed Orrstown Financial Services' proposal that Mercersburg Financial Corporation fully fund its pension plan prior to closing, the implications of the SEPTA litigation involving Orrstown Financial Services and the scope of the reverse due diligence that would be necessary for Mercersburg Financial Corporation to undertake. The board of directors discussed Orrstown Financial Services' proposal in relation to the board's assessment of Mercersburg Financial Corporation's strategic vision and future, while expressing a desire to better understand Orrstown Financial Services' visions for the local Mercersburg community served and supported by Mercersburg Financial Corporation and Mercersburg Financial Corporation's contributions to Orrstown Financial Services' business strategy following the completion of the transaction.

As a result of the foregoing discussions, the Mercersburg Financial Corporation board of directors directed Ambassador to communicate the following counterproposals to Orrstown Financial Services' financial advisor:

A fixed exchange ratio rather than a floating exchange ratio;

A 30 percent cash portion rather than a 15 percent cash portion; and

Two weeks of severance pay per year of service, rather than the one week initially proposed by Orrstown Financial Services, with a minimum of two weeks and a maximum of 26 weeks.

Mercersburg Financial Corporation received a revised letter of intent from Orrstown Financial Services on April 18, 2018 following Ambassador's conversation with Orrstown Financial Services' financial advisor. Orrstown Financial Services agreed to a fixed exchange ratio based upon the same \$40.00 per share price, with the cash portion limited to 15%.

The board of directors met by conference telephone on April 20, 2018 to review the revised letter of intent. Representatives of Stevens & Lee and Ambassador participated in the call.

The board of directors expressed satisfaction with the proposed fixed exchange ratio, \$40.00 per share price and the cash portion limited to 15%. Because, however, Orrstown Financial Services' financial advisor had told Ambassador that in establishing the \$40.00 per share price Orrstown Financial Services had assumed in its pricing models that it would realize cost-savings of 45% in connection with combining the separate operations of the two companies, the board of directors discussed at length the implications of cost-savings at a 45% level on Mercersburg Financial Corporation employees and the Mercersburg community. As a result, the board of directors directed Ambassador to invite Mr. Quinn to make a presentation to the Mercersburg Financial Corporation board of directors regarding

Orrstown Financial Services' vision for the Mercersburg community and the contribution Mercersburg Financial Corporation would make to Orrstown Financial Services' business strategy following completion of the merger. In order to enable the exchange of confidential and proprietary information that would facilitate preparations for such a presentation, the Board of Directors also authorized and directed Stevens & Lee to negotiate the terms and conditions of the non-disclosure agreement.

Mercersburg Financial Corporation and Orrstown Financial Services entered into a non-disclosure agreement on April 23, 2018.

Mr. Quinn, together with Mr. Boyle, made a presentation to the Mercersburg Financial Corporation board of directors on April 26, 2018.

On May 1, 2018, the Mercersburg board of directors met by conference telephone to discuss the revised letter of intent received from Orrstown Financial Services following the presentation by Mr. Quinn and Mr. Boyle on April 26, 2018. Representatives of Stevens & Lee and Ambassador again participated in the call. The board discussed the impacts they would anticipate from a transaction with Orrstown Financial Services under the terms of the letter of intent upon three key constituencies (i) stockholders, (ii) employees and (iii) community. The directors acknowledged that the \$40.00 per share price, proposed fixed exchange rate and 15% cash portion could be fair to Mercersburg Financial Corporation stockholders.

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They discussed the potential impact of the SEPTA litigation on Orrstown Financial Services' financial position, results of operations and the price of Orrstown Financial Services' common stock. They discussed the potential impact of Orrstown Financial Services' proposed 45% cost savings upon Mercersburg Financial Corporation employees and Orrstown Financial Services' vision for the Mercersburg community and Mercersburg Financial Corporation's contribution to Orrstown Financial Services' business strategy following completion of the merger.

The board of directors also discussed possible alternatives to a transaction with Orrstown Financial Services, including a transaction with other likely strategic partners or continuing to pursue an independence strategy. The board of directors believed that none of the other potential partners that it considered at the April 18, 2018 meeting appeared likely to offer a materially better price than the \$40.00 per share price offered by Orrstown Financial Services and concluded that no transaction with any other potential partner would be likely to have a more favorable impact on Mercersburg Financial Corporation's employees or the Mercersburg community than a transaction with Orrstown Financial Services. With respect to anticipated prospects for continuing to pursue an independence strategy, the board of directors determined that it would be relatively difficult for Mercersburg Financial Corporation to materially enhance its franchise value while pursuing an independence strategy due to its relatively small size and limited opportunity to grow materially, whether by acquisition or organically, and that it would be unlikely that the corporation would be able to position itself to receive a proposal for a transaction in the future upon materially more favorable terms than the terms proposed by Orrstown Financial Services in the letter of intent.

The board of directors also discussed the terms of employment being offered to Mr. Fignar and the severance compensation proposed to be paid to terminated Mercersburg Financial Corporation employees by Orrstown Financial Services. The board of directors directed that Mercersburg Financial Corporation negotiate a restricted area having a radius of 35 miles from the banking offices of First Community Bank of Mercersburg as of the effective date of the merger consistently with the terms of Mr. Fignar's current employment agreement with Mercersburg Financial Corporation, rather than the 75 mile radius from Orrstown Bank's headquarters being proposed by Orrstown Financial Services, for purposes of the covenant not to compete to be included in the proposed employment agreement between Mr. Fignar and Orrstown Financial Services. The board of directors also directed that Mercersburg Financial Corporation negotiate for an agreement by Orrstown Financial Services to pay severance compensation to terminated Mercersburg Financial Corporation employees at the rate of two weeks of pay for each year of service rather than the rate of one week of pay for each year of service proposed by Orrstown Financial Services.

The Mercersburg Financial Corporation board of directors met again by conference telephone on May 3, 2018 to discuss the further revised letter of intent received from Orrstown Financial Services on May 2, 2018, which the board determined satisfactorily addressed the restricted area and severance compensation matters the board had discussed during its May 1, 2018 meeting. Representatives of Stevens & Lee and Ambassador also participated in the call. The board of directors also discussed again the other matters the board had discussed on May 1, 2018, reaching the same determinations it had before.

The Mercersburg Financial Corporation board of directors directed that Mercersburg Financial Corporation negotiate for a further agreement by Orrstown Financial Services to provide for an initial four year term under the employment agreement to be offered to Mr. Fignar and to provide for a base salary for Mr. Fignar commensurate with that of Orrstown Financial Services' own similarly situated executive officers. The board of directors then authorized Mr. Fignar to execute and deliver to Orrstown Financial Services on behalf of Mercersburg Financial Corporation a letter of intent in the form presented by Orrstown Financial Services on May 2, 2018, but conditioned upon Orrstown Financial Services agreeing to the four year term and base salary provisions discussed above.

Orrstown Financial Services subsequently agreed to the four year term and base salary provisions and promptly delivered a revised letter of intent to Mercersburg Financial Corporation, which Mr. Fignar executed on behalf of

Mercersburg Financial Corporation and returned to Orrstown Financial Services on May 3, 2018.

On May 4, 2018, Orrstown Financial Services began its due diligence investigation of Mercersburg Financial Corporation. On May 15, 2018, Orrstown Financial Services delivered to Mercersburg Financial Corporation an initial draft of a definitive merger agreement.

On May 24, 2018, members of senior management of Mercersburg Financial Corporation, together with representatives of Stevens & Lee, conducted on-site reverse due diligence of Orrstown Financial Services. Representatives of Ambassador also were present. The reverse due diligence included review of Orrstown Financial Services loan portfolio, investment holdings, product offerings, policies and procedures, pending legal matters including the SEPTA litigation, and

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financial information. Descriptions of the SEPTA litigation set forth by Orrstown Financial Services in its annual reports on Form 10-K and current reports on Form 10-Q filed with the SEC and materials filed with the Court by the parties to the SEPTA litigation were reviewed, and questions about the SEPTA litigation were asked of senior management of Orrstown Financial Services and its litigation counsel. While senior management of Mercersburg Financial Corporation determined due diligence findings to be satisfactory overall, no opinion with respect to the outcome of the SEPTA litigation or with respect to the merits of SEPTA's claims or Orrstown Financial Services' and the other defendants' defenses is expressed or is to be inferred.

From May 15, 2018 to May 31, 2018, representatives of Stevens & Lee, in consultation with Mr. Fignar and representatives of Ambassador and with directions from the Mercersburg Financial Corporation board of directors, negotiated the terms of the definitive merger agreement. On May 23, 2018, at a regular meeting of the board of directors of First Community Bank of Mercersburg, the board of directors of Mercersburg Financial Corporation met to receive a report on the status of negotiations with Orrstown Financial Services on the definitive merger agreement. Representatives of Stevens & Lee and Ambassador also attended in person or by telephone.

The discussion by the board of directors focused on the fact that the initial draft of the definitive merger agreement delivered to Mercersburg Financial Corporation by Orrstown Financial Services on May 15, 2018 did not contain a double trigger walk-away provision. The purpose of a double trigger walk-away provision is to protect stockholders of the target corporation from a material reduction in the market price of the acquirer's stock from the date of the definitive merger agreement to the closing date of the merger. The terms of the double trigger walk-away provision generally allow the board of directors of the target corporation to give notice of termination of the definitive merger agreement to the acquirer if the market price of the acquirer's stock has decreased below an agreed-upon threshold, on both an absolute basis and relative to an agreed upon bank stock index. The acquirer then generally has the option to increase the number of shares of its stock into which shares of the target corporation's stock are to be exchanged in order to preserve the value of the transaction to target corporation stockholders. In the event the acquirer would decline to contribute additional stock, the definitive merger agreement would terminate.

On May 23, 2018, Mercersburg Financial Corporation delivered a revised version of the definitive merger agreement to Orrstown Financial Services, setting forth Mercersburg Financial Corporation's written comments on the terms and conditions of the definitive merger agreement initially proposed by Orrstown Financial Services. Mercersburg Financial Corporation included a double trigger walk-away provision among its written comments.

On May 25, 2018, Orrstown Financial Services delivered to Mercersburg Financial Corporation a revised draft of the definitive merger agreement that again did not include a double trigger walk-away provision.

On May 29, 2018, the board of directors of Mercersburg Financial Corporation met by conference telephone. Representatives of Stevens & Lee and Ambassador participated in the call. The board of directors again discussed the absence of the double trigger walk-away provision from the definitive merger agreement. In addition to the protection accorded generally to target corporation stockholders, the board of directors discussed the further protection a double trigger walk-away provision could provide to Mercersburg Financial Corporation stockholders in the event a judgment in or settlement of the SEPTA litigation would occur prior to the closing date of merger and have a material adverse effect on the market price of Orrstown Financial Services common stock and, thereby, the value of the merger consideration. The Mercersburg Financial Corporation board of directors voted unanimously that a double trigger walk-away provision must be included in the definitive merger agreement and directed that Mercersburg Financial Corporation negotiate for the inclusion of a double trigger walk-away provision. Orrstown Financial Services subsequently agreed to include a double trigger walk-away provision in the definitive merger agreement upon the terms and conditions therein set forth.



A special meeting of the Mercersburg Financial Corporation board of directors was held on May 31, 2018. Representatives of Stevens & Lee and Ambassador attended in person. The representative of Stevens & Lee again reminded the Mercersburg Financial Corporation directors of their fiduciary duties under the PBCL and reviewed with them the terms and conditions of the proposed definitive merger agreement. Ambassador reviewed with the board Ambassador's financial analysis of the merger consideration and delivered its opinion to Mercersburg Financial Corporation's board of directors to the effect that, as of such date and based upon and subject to various considerations set forth in the opinion, the merger consideration to be received by the holders of Mercersburg Financial Corporation common stock in the merger was fair to such holders from a financial point of view. Following further discussion and consideration of the factors described under *Reasons for the Merger* beginning on page 46, the Mercersburg Financial Corporation board of directors unanimously approved the definitive merger agreement and recommended that Mercersburg Financial Corporation's stockholders approve and adopt the definitive merger agreement and all related transactions provided for in the agreement.

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On May 31, 2018, Mercersburg Financial Corporation executed the definitive merger agreement and, together with Orrstown Financial Services, issued a joint press release announcing the transaction.

## **Recommendation of the Mercersburg Financial Corporation Board of Directors and Mercersburg Financial Corporation's Reasons for the Merger**

### **Recommendation of the Mercersburg Financial Corporation Board of Directors**

Our board of directors unanimously approved the merger agreement and determined that the transactions provided for in the merger agreement are advisable to, and in the best interests of, Mercersburg Financial Corporation and our stockholders. **Our board of directors unanimously recommends that you vote FOR the approval of the merger agreement and FOR the adjournment proposal, if necessary.**

### **Reasons for the Merger**

**After careful consideration, the Mercersburg Financial Corporation board of directors determined it was advisable and in the best interests of Mercersburg Financial Corporation to enter into the merger agreement with Orrstown Financial Services.**

In the process of making the recommendation to approve the merger with Orrstown Financial Services, the Mercersburg Financial Corporation board of directors evaluated the merger in consultation with Mercersburg Financial Corporation's senior management team as well as Mercersburg Financial Corporation's legal and financial advisors. In determining that the proposed merger with Orrstown Financial Services is in the best interests of Mercersburg Financial Corporation, the Mercersburg Financial Corporation's board considered the following factors, which are not necessarily all-inclusive:

The changing regulatory environment, including, in particular, issuance of additional regulations to implement various provisions of the Dodd-Frank Act, and the expectant material increase in legal and compliance costs to Mercersburg Financial Corporation as greater human and technological resources and expertise are required to remain compliant with applicable law and regulations;

The current relative size of Mercersburg Financial Corporation, its growth over its 109 year history and the expected scale that would be necessary going forward for Mercersburg Financial Corporation to continue as an independent, high-performing community banking institution in comparison to the benefits of aligning with another institution in an acquisition transaction with a larger, high-performing institution;

The current merger and acquisition market, including the attractive prices being paid by acquirers and the uncertainty that such pricing would continue or that Mercersburg Financial Corporation's future earnings would remain at a level sufficient to attract such prices;

The ability of Mercersburg Financial Corporation to attract and retain qualified individuals to replace members of its senior management team and members of its board of directors as individuals serving in such positions retire over the next several years;

The challenging environment for Mercersburg Financial Corporation to grow profitably in its current market, as reflected by the limited growth in terms of total assets from \$172 million at December 31, 2012 to \$180 million at December 31, 2017, and its flat net income levels from \$1.1 million in 2012 to \$1.24 million in 2017 (as adjusted for the one time deferred tax asset adjustment related to the Tax Cuts and Jobs Act);

The substantial and costly investments in information technology required to permit Mercersburg Financial Corporation to satisfy regulatory requirements and remain competitive in the marketplace, and the anticipated impact of such investments on Mercersburg Financial Corporation's future earnings;

The process conducted by Mercersburg Financial Corporation's management and board of directors, with the assistance of Ambassador, to identify potential strategic acquirers or mergers of equal partners;

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The inability of Mercersburg Financial Corporation to interest preferred mergers of equal partners to enter into a merger of equals transaction upon terms and conditions acceptable to the Mercersburg Financial Corporation board of directors;

The consideration offered in the transaction, valued at approximately \$32.4 million, which represents a premium to tangible book value multiple of approximately 1.53 times;

The 85% stock/15% cash consideration offered in the merger;

The fact that Mercersburg Financial Corporation stockholders will have the opportunity to receive shares of Orrstown Financial Services common stock in the merger on a tax-free basis, which would allow Mercersburg Financial Corporation stockholders to participate in the future performance of the combined company's businesses and synergies resulting from the merger;

The increased liquidity for Mercersburg Financial Corporation stockholders who receive Orrstown Financial Services common stock in the transaction;

The fact that up to 15% of the merger consideration would be composed of cash at \$40.00 per share, thereby permitting Mercersburg Financial Corporation stockholders who wish to receive cash to elect an all cash exchange or an exchange comprised of part Orrstown Financial Services common stock and part cash, subject to the election, allocation and proration provisions of the merger agreement;

The opportunity to expand relationships with Mercersburg Financial Corporation's existing customer base through the increased lending capacity afforded by the combined institution;

The anticipated positive impact to Mercersburg Financial Corporation's existing customers resulting from Orrstown Financial Services having a community banking business model similar to Mercersburg Financial Corporation;

The proposed board and management arrangements, including Orrstown Financial Services' commitment to appoint one Mercersburg Financial Corporation board member to the Orrstown Financial Services board of directors, and to retain Robert J. Fignar, President and Chief Executive Officer of Mercersburg Financial Corporation, as President of Orrstown Bank's Southern Region, comprised of Perry and Franklin Counties in Pennsylvania and Washington County in Maryland;

The likelihood and anticipated time of completion of the merger;

The understanding that aligning with Orrstown Financial Services would provide more robust technology and systems, broader product offerings, more favorable terms with vendors and more sophisticated marketing;

The mutual understanding that Mercersburg Financial Corporation and Orrstown Financial Services share similar operating cultures, core values and approaches to servicing their respective markets;

The Mercersburg Financial Corporation board's belief that multiple areas of risk, including regulatory, financial, legal, servicing, and customer retention, could be substantially reduced by combining with a larger institution having access to greater financial and operational resources; and

The opinion, dated May 31, 2018, of Ambassador to the Mercersburg Financial Corporation board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to the holders of Mercersburg Financial Corporation common stock of the merger consideration in the proposed merger, as more fully described under *Opinion of Mercersburg Financial Corporation's Financial Advisor* below. The Mercersburg Financial Corporation board of directors also considered a variety of potential risks associated with the merger, including the following:

The possibility the merger might not close and the negative impact that could have on Mercersburg Financial Corporation's reputation and earnings;

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The risk that potential benefits and synergies sought in the merger may not be realized or may not be realized within the expected time period, and the risks associated with the integration of Mercersburg Financial Corporation and Orrstown Financial Services;

The fact that because the stock consideration in the merger is based upon a fixed exchange ratio of shares of Orrstown Financial Services common stock to Mercersburg Financial Corporation common stock, Mercersburg Financial Corporation stockholders who receive Orrstown Financial Services common stock could be adversely affected by a decrease in the trading price of Orrstown Financial Services common stock during the pendency of the merger;

The fact that certain provisions of the merger agreement prohibit Mercersburg Financial Corporation from soliciting, and limit its ability to respond to, proposals for alternative transactions, and the obligation to pay a termination fee of \$1,250,000 in the event that the merger agreement is terminated in certain circumstances, including if Mercersburg Financial Corporation terminates the merger agreement to accept a superior proposal;

The potential for diversion of management and employee attention, and for employee attrition, during the period prior to the completion of the merger and the potential effect on Mercersburg Financial Corporation's business and relations with customers, service providers and other stakeholders, whether or not the merger is consummated; and

The fact that pursuant to the merger agreement, Mercersburg Financial Corporation must generally conduct its business in the ordinary course and Mercersburg Financial Corporation is subject to a variety of other restrictions on the conduct of its business prior to the completion of the merger or termination of the merger agreement, which may delay or prevent Mercersburg Financial Corporation from undertaking business opportunities that may arise pending completion of the merger.

The risk that a judgment or settlement in the SEPTA litigation could have a material adverse effect on the financial condition, results of operation or reputation of Orrstown Financial Services or on the market price of its common stock. See the section of this proxy statement/prospectus titled Risk Factors Pending litigation and legal proceedings and the impact of any finding of liability or damages could adversely impact Orrstown Financial Services and its financial condition and results of operations beginning on page 27.

In considering the risk that a judgment or settlement in the SEPTA litigation could have a material adverse effect on the financial condition, results of operation or reputation of Orrstown Financial Services, the Mercersburg Financial Corporation board of directors considered the fact that the merger agreement contains a double trigger walk-away provision that could allow the Mercersburg Financial Corporation board of directors to give notice of termination of the Merger Agreement if such a judgment or settlement would occur prior to the closing date of the merger and the conditions under the double trigger walk-away provision allowing for termination would be triggered. In addition, the board of directors further considered that because the January, 2019 trial date has been indefinitely continued, and because Orrstown Financial Services common stock, being listed on NASDAQ, is relatively liquid, Mercersburg Financial Corporation

stockholders who receive Orrstown Financial Services common stock in the merger and who are concerned about the risk of the SEPTA litigation could have a reasonable opportunity before a trial would be likely to occur to sell their shares of Orrstown Financial Services common stock.

Mercersburg Financial Corporation's board of directors realizes there can be no assurance about future results, including results expected or considered in the factors listed above. However, the Mercersburg Financial Corporation board concluded the potential positive factors outweighed the potential risks of completing the merger.

During its consideration of the merger, Mercersburg Financial Corporation's board of directors was also aware that some of its directors and executive officers may have interests in the merger that are different from or in addition to those of its shareholders generally, as described under *Interests of Mercersburg Financial Corporation Directors and Executive Officers* beginning on page 62.

The foregoing discussion of the factors considered by the Mercersburg Financial Corporation board of directors in evaluating the transaction is not intended to be exhaustive, but, rather, includes all material factors considered by the Mercersburg Financial Corporation board of directors. In reaching its decision to approve the transaction, the Mercersburg Financial Corporation board of directors did not quantify or assign relative weights to the factors considered, and individual directors may have given different weights to different factors. The Mercersburg Financial Corporation board of directors evaluated the factors described above and determined that the transaction was in the best interests of Mercersburg Financial Corporation. It should be noted that this explanation of the reasoning of Mercersburg Financial Corporation's board of directors and all other information in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading *Special Note Regarding Forward-Looking Statements* on page 29.

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**Opinion of Mercersburg Financial Corporation's Financial Advisor**

Mercersburg Financial Corporation retained Ambassador to act as Mercersburg Financial Corporation's financial advisor in connection with the possible business combination of Mercersburg Financial Corporation with another party. Ambassador is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Ambassador is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

On May 31, 2018, Ambassador delivered its opinion to Mercersburg Financial Corporation's board of directors to the effect that, as of such date and based upon and subject to various considerations set forth in the opinion, the merger consideration to be received by the holders of Mercersburg Financial Corporation common stock in the merger was fair to such holders from a financial point of view. Ambassador's opinion was approved by Ambassador's Fairness Opinion Committee. Ambassador has consented to the inclusion of its opinion in this proxy statement/prospectus.

**The full text of Ambassador's written opinion to Mercersburg Financial Corporation, which sets forth, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Annex C to this proxy statement/prospectus and is incorporated by reference in its entirety into this proxy statement/prospectus. Holders of Mercersburg Financial Corporation common stock are encouraged to read the opinion carefully in its entirety. The following summary of Ambassador's opinion is qualified in its entirety by reference to the full text of such opinion.**

**Ambassador's opinion to Mercersburg Financial Corporation's board of directors was rendered for the benefit of Mercersburg Financial Corporation's board (in its capacity as such) in connection with its evaluation of the merger. Ambassador's opinion is not intended and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to the merger or any matter relating thereto or whether such shareholder should elect to receive the cash consideration or the stock consideration. Ambassador's opinion does not address the relative merits of the merger as compared to any other transaction or business strategy in which Mercersburg Financial Corporation might engage or the merits of the underlying decision by Mercersburg Financial Corporation to engage in the merger.**

No limitations were imposed by Mercersburg Financial Corporation on the scope of Ambassador's investigation or on the procedures followed by Ambassador in rendering its opinion.

In rendering the opinion, Ambassador:

Reviewed a draft dated May 31, 2018 of the merger agreement;

Reviewed Mercersburg Financial Corporation's audited financial statements as of or for the fiscal years ended December 31, 2017 and December 31, 2016 and Mercersburg Financial Corporation's interim financial statements as of or for the quarter ended March 31, 2018;

Reviewed Orrstown Financial Services' Form 10-K for the fiscal year ended December 31, 2017, including the financial statements contained therein;



Reviewed Orrstown Financial Services Form 10-Q for the quarter ended March 31, 2018, including the financial statements contained therein;

Reviewed First Community Bank of Mercersburg s and Orrstown Bank s respective quarterly call reports for March 31, 2018, December 31, 2017, September 30, 2017, June 30, 2017, and March 31, 2017;

Reviewed other publicly available information regarding Mercersburg Financial Corporation and Orrstown Financial Services, including research analysts estimates for Orrstown Financial Services discussed with Ambassador by the management of Orrstown Financial Services;

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Reviewed certain non-public information provided to Ambassador by or on behalf of Mercersburg Financial Corporation and Orrstown Financial Services, regarding Mercersburg Financial Corporation and Orrstown Financial Services (including financial projections and forecasts for Mercersburg Financial Corporation provided to Ambassador by the management of Mercersburg Financial Corporation and long-term growth rate and other assumptions for Orrstown Financial Services provided to Ambassador by the management of Orrstown Financial Services) and projected cost savings anticipated by the management of Orrstown Financial Services to be realized from the merger;

Reviewed recently reported stock prices and trading activity of Mercersburg Financial Corporation Common Stock and Orrstown Financial Services common stock;

Discussed the past and current operations, financial condition and future prospects of Mercersburg Financial Corporation and Orrstown Financial Services with senior executives of Mercersburg Financial Corporation and Orrstown Financial Services, respectively;

Reviewed and analyzed certain publicly available financial and stock market data of banking companies that Ambassador selected as relevant to Ambassador's analysis of Mercersburg Financial Corporation and Orrstown Financial Services;

Reviewed and analyzed certain publicly available financial data of transactions that Ambassador selected as relevant to Ambassador's analysis of Mercersburg Financial Corporation;

Considered Orrstown Financial Services' financial and capital position and certain potential pro forma financial effects of the merger on Orrstown Financial Services;

Conducted other analyses and reviewed other information Ambassador considered necessary or appropriate; and

Incorporated Ambassador's assessment of the overall economic environment and market conditions, as well as Ambassador's experience in mergers and acquisitions, bank stock valuations and other transactions. In rendering Ambassador's opinion, Ambassador also relied upon and assumed, without independent verification, the accuracy, reasonableness and completeness of the information provided to Ambassador by or on behalf of Mercersburg Financial Corporation and Orrstown Financial Services and publicly available information used in Ambassador's analyses. Ambassador did not assume any responsibility for the accuracy, reasonableness and completeness of any of the foregoing materials provided to Ambassador and publicly available information or for the independent verification thereof. Further, Ambassador relied on the assurances of managements of Mercersburg Financial Corporation and Orrstown Financial Services that they were not aware of any facts or circumstances that would make any of the foregoing materials provided to Ambassador inaccurate or misleading. With respect to the financial projections and forecasts for Mercersburg Financial Corporation and research analysts' estimates and long-term growth rate and other assumptions for Orrstown Financial Services reviewed by Ambassador and other non-public information related to projected cost savings referred to above, Ambassador assumed, with Mercersburg

Financial Corporation's consent, that they were reasonably prepared on bases reflecting (or, in the case of research analysts' estimates, are consistent with) the best currently available estimates and judgments of the respective managements of Mercersburg Financial Corporation and Orrstown Financial Services, as the case may be, as to the future financial performance of Mercersburg Financial Corporation and Orrstown Financial Services and such cost savings and that the financial results reflected in such projections, forecasts, estimates and assumptions as well as such cost savings would be realized in the amounts and at the times projected. Ambassador assumed no responsibility for and expressed no view as to any of the foregoing information reviewed by Ambassador or the assumptions on which they were based.

Ambassador is not an expert in the evaluation of deposit accounts or loan, mortgage or similar portfolios or allowances for losses with respect thereto and Ambassador was not requested to, and Ambassador did not, conduct a review of individual credit files or loan, mortgage or similar portfolios. Ambassador assumed no responsibility for and expressed no view as to the adequacy or sufficiency of allowances for losses or other matters with respect thereto and Ambassador assumed that each of Mercersburg Financial Corporation and Orrstown Financial Services had, and the pro forma combined company would have, appropriate reserves to cover any such losses. Ambassador did not conduct any independent valuation or appraisal of any of the assets or liabilities (contingent or otherwise) of Mercersburg Financial Corporation, Orrstown Financial Services or any other party, and Ambassador was not furnished with any such valuation or appraisal.

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Ambassador undertook no independent evaluation of any potential or actual litigation to which Mercersburg Financial Corporation or Orrstown Financial Services was or may be a party or was or may be subject. Ambassador expressed no view or opinion as to the pending federal securities litigation against Orrstown Financial Services and certain current and former officers of Orrstown Financial Services, as to which Ambassador understood that Orrstown Financial Services and Mercersburg Financial Corporation conducted such diligence and other investigations, and obtained such advice from legal counsel, as they deemed necessary and against which Orrstown Financial Services advised Ambassador it intends to vigorously defend itself. With Mercersburg Financial Corporation's consent, Ambassador did not consider such litigation or any aspect, implication or effect thereof for purposes of Ambassador's analyses or opinion. If the outcome of such litigation had been known or assumed to have a material effect on Orrstown Financial Services, then the conclusion reached in Ambassador's opinion could have been affected.

Ambassador's opinion was based on conditions as they existed and the information Ambassador received, as of the date of Ambassador's opinion. Ambassador does not have any obligation to update, revise or reaffirm its opinion. Ambassador expressed no opinion as to the actual value of Orrstown Financial Services Common Stock when issued in the merger or the prices at which Mercersburg Financial Corporation Common Stock or Orrstown Financial Services Common Stock might trade at any time.

In rendering Ambassador's opinion, Ambassador assumed, with Mercersburg Financial Corporation's consent, that the merger and related transactions would be consummated on the terms described in the merger agreement, without any waiver or modification of any material terms or conditions. Ambassador also assumed, with Mercersburg Financial Corporation's consent, that, in the course of obtaining the necessary governmental, regulatory and other third party approvals, consents and releases for the merger, including with respect to any divestiture or other requirements, no delay, limitation, restriction or condition would be imposed that would have an adverse effect on Mercersburg Financial Corporation, Orrstown Financial Services or the merger (including the contemplated benefits thereof). Ambassador also assumed, with Mercersburg Financial Corporation's consent, that the final merger agreement would not differ from the draft reviewed by Ambassador in any respect material to Ambassador's analyses or opinion. Ambassador further assumed, with Mercersburg Financial Corporation's consent, that the merger would qualify for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code.

Ambassador expressed no view or opinion as to any terms or other aspects (other than the merger consideration to the extent expressly specified in Ambassador's opinion) of the merger or any related transaction, including, without limitation, the form of the merger consideration or the allocation thereof between cash and Orrstown Financial Services common stock or the relative fairness of the cash consideration and the stock consideration. Ambassador expressed no opinion with respect to the fairness of the amount or nature of any compensation to any of the officers, directors, or employees of any party to the merger, or any class of such persons, relative to the merger consideration or otherwise. In connection with Ambassador's engagement, Ambassador was not authorized to, and Ambassador did not, solicit indications of interest from third parties with respect to the possible sale of Mercersburg Financial Corporation.

In performing its analyses, Ambassador made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of Ambassador, Mercersburg Financial Corporation and Orrstown Financial Services. Any estimates contained in the analyses performed by Ambassador are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, Ambassador's opinion was among several factors taken into consideration by Mercersburg Financial Corporation's board of directors in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the Mercersburg Financial

Corporation board of directors with respect to the fairness of the merger consideration. The type and amount of consideration payable in the merger were determined through negotiation between Mercersburg Financial Corporation and Orrstown Financial Services and the decision of Mercersburg Financial Corporation to enter into the merger agreement was solely that of Mercersburg Financial Corporation's board of directors.

**Table of Contents***Selected Implied Transaction Statistics for the Merger*

Based on Mercersburg Financial Corporation's financial information as of March 31, 2018, for the twelve months ended March 31, 2018 and for the three months ended March 31, 2018 (annualized) and the closing price of Mercersburg Financial Corporation common stock on May 25, 2018, Ambassador calculated the following implied transaction statistics for the merger using an implied per share value of the merger consideration of \$40.00<sup>(1)</sup> or an implied transaction value of approximately \$32.4 million:

Transaction value / tangible book value	153%
Transaction value / last twelve months earnings	37.4x
Transaction value / last three months earnings annualized	27.8x
Core deposit premium <sup>(2)</sup>	7.4%
Market premium to most recent closing price	63.3%

- (1) Based on the stock consideration exchange ratio of 1.5291x and the closing price of Orrstown Financial Services common stock on May 31, 2018, the implied per share value of the merger consideration was \$39.68 and the implied transaction value was approximately \$32.1 million.
- (2) Calculated as follows: (implied transaction value – tangible equity) / core deposits; where core deposits are defined as: total deposits, less time deposit accounts with balances over \$100,000, foreign deposits, and unclassified deposits.

The following is a summary of the material financial analysis presented by Ambassador to Mercersburg Financial Corporation's board of directors in connection with rendering its opinion. This summary is not a complete description of the analyses and procedures performed by Ambassador in the course of arriving at its opinion. The financial analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex analytical process involving various determinations as to appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Ambassador did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Ambassador believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. No company, transaction or business used in Ambassador's analyses for comparative purposes is identical to Mercersburg Financial Corporation, Orrstown Financial Services or the proposed merger and an evaluation of the results of those analyses is not entirely mathematical.

**Table of Contents***Selected Companies Analysis of Mercersburg Financial Corporation*

Ambassador performed a selected companies analysis by comparing the financial and stock performance of Mercersburg Financial Corporation with those of the following ten selected publicly traded financial institutions, referred to as the comparable institutions, that were headquartered in Maryland, New Jersey, New York, Pennsylvania, Ohio, Virginia or West Virginia, were not mutual institutions, thrifts or merger or acquisition targets and had assets between \$100 million and \$400 million, average one-year daily trading volume greater than 100 shares, nonperforming assets to assets ratios less than 1.5%, and returns on equity less than 7%:

**Description of Comparable Institutions**

Institution	Assets <sup>(1)</sup> (In Millions)	City, State	Ticker	Exchange
Clarion County Community Bank	\$ 157	Clarion, PA	CCYY	OTC Pink
Delhi Bank Corp.	313	Delhi, NY	DWNX	OTC Pink
Enterprise Bank N.J.	244	Kenilworth, NJ	ENBN	OTC Pink
Glen Burnie Bancorp	390	Glen Burnie, MD	GLBZ	NASDAQ
JTNB Bancorp, Inc.	194	Jim Thorpe, PA	JTNB	OTC Pink
Middletown Valley Bank	373	Middletown, MD	MNVB	OTC Pink
National Bank of Coxsackie	303	Coxsackie, NY	NCXS	OTC Pink
Oak View National Bank	226	Warrenton, VA	OAKV	OTC Pink
Virginia Bank Bankshares, Inc.	195	Danville, VA	VABB	OTC Pink
Virginia Partners Bank	379	Fredericksburg, VA	PTRS	OTCQX

Source: S&P Global Market Intelligence

(1) Financial data as of March 31, 2018, or if unavailable, December 31, 2017.

Ambassador compared the financial performance of Mercersburg Financial Corporation and the comparable institutions as indicated in the following table:

**Financial Performance of Mercersburg Financial Corporation and Comparable Institutions<sup>(1)</sup>**

	Assets (In Millions)	Tangible Equity/ Tangible Assets	Tangible Common Equity/ Tangible Assets	Nonperforming Assets/ Assets	Return on Average Assets	Return on Average Equity
High	\$ 390	12.45%	12.45%	1.48%	.81%	6.81%
75 <sup>th</sup> Percentile	375	11.63	11.63	1.06	.50	5.21
Median	273	9.31	9.31	.53	.39	4.15
25 <sup>th</sup> Percentile	195	8.48	8.48	.13	.33	3.22
Low	157	8.39	8.39	.01	.18	1.83

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Mercersburg Financial Corporation	\$	184	11.48%	11.48%	.23%	.66%	5.83%
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Source: S&P Global Market Intelligence

(1) Financial data is as of March 31, 2018, or the twelve months ended March 31, 2018, or if unavailable, December 31, 2017, or the twelve months ended December 31, 2017.



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Ambassador then compared the stock performance of Mercersburg Financial Corporation and the comparable institutions as indicated in the following table:

**Stock Performance of Mercersburg Financial Corporation and Comparable Institutions<sup>(1)</sup>**

	Stock Price/ Earnings per Share Last 12 Months	Tangible Most Recent Quarter (annualized)	Book Value Per Share	Assets Per Share	Dividend Yield	Shares Traded Daily <sup>(2)</sup>
High	66.4x	32.2x	174%	14.6%	5.81%	3,084
75th Percentile	35.1	29.5	124	14.3	3.65	969
Median	26.5	17.7	115	11.6	1.72	279
25th Percentile	18.6	14.2	96	8.2	.00	167
Low	17.9	11.2	84	7.0	.00	106
Mercersburg Financial Corporation	22.9x	17.0x	94%	11.0%	2.29%	41

Source: S&P Global Market Intelligence.

(1) Financial data as of March 31, 2018, or for the twelve or three months ended March 31, 2018, or if unavailable, December 31, 2017, or the twelve or three months ended December 31, 2017. Market data is as of May 25, 2018.

(2) Average volume of shares traded daily over the past year.

Ambassador also reviewed the historical stock price performance of Mercersburg Financial Corporation relative to the comparable institutions and selected stock indices, as indicated in the following tables:

**Mercersburg Financial Corporation Historical Stock Performance****Relative to Comparable Institutions and Selected Indices**

Date	One-Year Stock Performance			
	Mercersburg Financial Corporation (MCBG)	Comparable Institutions	S&P 500	NASDAQ Bank Index
May 25, 2018	98%	105%	113%	118%
May 25, 2017	100	100	100	100

Date	Three-Year Stock Performance			
	Mercersburg Financial Corporation (MCBG)	Comparable Institutions	S&P 500	NASDAQ Bank Index
May 25, 2018	178%	106%	129%	157%

May 26, 2015	100	100	100	100
<i>Discounted Dividend Analysis of Mercersburg Financial Corporation</i>				

Ambassador performed a discounted dividend analysis to estimate a range for the implied equity value of Mercersburg Financial Corporation common stock. In this analysis, Ambassador assumed discount rates of 10%, 12% and 14% and calculated terminal values of 100% and 120% of estimated tangible book value at the end of seven years. Ambassador used financial projections and forecasts for Mercersburg Financial Corporation provided to Ambassador by the management of Mercersburg Financial Corporation. This analysis indicated an implied present value reference range of Mercersburg Financial Corporation common stock of \$16.68 per share to \$24.80 per share, which are 11.6x and 17.2x, respectively, of Mercersburg Financial Corporation's annualized earnings for the three months ended March 31, 2018 and 64% and 95%, respectively, of Mercersburg Financial Corporation's tangible book value as of March 31, 2018.

**Table of Contents***Selected Transactions Analysis of Mercersburg Financial Corporation*

Ambassador performed a selected transactions analysis by reviewing the following information for purposes of comparison with selected implied transaction ratios for the merger:

Publicly available acquisition metrics of selected transactions in the United States that were announced from January 1, 2015 through May 25, 2018 with announced deal values of \$10 million or more, excluding mergers of equals ( National M&A Transactions ).

Publicly available acquisition metrics of selected transactions in which the selling bank was based in Pennsylvania that were announced from January 1, 2012 through May 25, 2018 with seller assets between \$100 million to \$400 million ( Pennsylvania Transactions ).

The results of the analysis for National M&A Transactions are set forth in the following table:

**National M&A Transactions<sup>(1)</sup>**

	Year <sup>(2)</sup>	Number of Deals	Median Price/ Last 12 Months Earnings	Median Price/ Tangible Common Book (%)
<b>Highest 3<sup>rd</sup> by Announced</b>				
<b>Price-to-Tangible Book</b>	YTD 2018	17	26.2x	223%
	2017	47	21.9	209
	2016	38	20.3	179
	2015	47	23.7	181
<b>Middle 3<sup>rd</sup> by Announced</b>				
<b>Price-to-Tangible Book</b>	YTD 2018	18	27.8x	179%
	2017	47	22.9	167
	2016	39	20.0	141
	2015	46	22.8	143
<b>Lowest 3<sup>rd</sup> by Announced</b>				
<b>Price-to-Tangible Book</b>	YTD 2018	18	26.2x	134%
	2017	47	20.8	132
	2016	39	18.2	116
	2015	46	23.4	118
	Orrstown Financial Services / Mercersburg Financial Corporation		37.4x	153%

Source: S&P Global Market Intelligence.

- (1) Median pricing data of the selected transactions in the sub-group indicated are shown.
- (2) Year-to-date 2018 through May 25, 2018.

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The results of the analysis for the Pennsylvania Transactions are set forth in the following table with primary focus on the median values:

**Pennsylvania Transactions**

Acquirer/Seller	Deal Value (in millions)	Deal Value/ Last 12 Months Earnings	Deal Value/ Common Tangible Book Value
Univest Corporation of Pennsylvania / Valley Green Bank	\$ 78	15.3x	234%
Emclair Financial Corp / Community First Bancorp, Inc.	18	21.0	191
Penns Woods Bancorp, Inc. / Luzerne National Bank Corporation	46	20.3	165
DNB Financial Corporation / East River Bank	49	21.7	158
NexTier Incorporated / Eureka Financial Corporation	35	22.7	151
Citizens Financial Services, Inc. / First National Bank of Fredericksburg	23	NM	145
S&T Bancorp, Inc. / Gateway Bank of Pennsylvania	21	34.2	140
Mid Penn Bancorp, Inc./ Scottsdale Bank & Trust Company	59	NM	130
First Bank/ Bucks County Bank	27	46.7	125
ESSA Bancorp, Inc. / Eagle National Bancorp, Inc.	25	NM	112
CB Financial Services, Inc. / FedFirst Financial Corporation	55	27.1	110
Mid Penn Bancorp, Inc. / Phoenix Bancorp, Inc.	15	26.6	110
First Priority Financial Corp. / Affinity Bancorp, Inc.	13	NM	105
Prudential Bancorp, Inc. / Polonia Bancorp, Inc.	38	NM	102
Riverview Financial Corporation / Union Bancorp, Inc.	10	NM	94
ESSA Bancorp, Inc. / Franklin Security Bancorp, Inc.	16	30.5	87
Median	\$ 26	24.6x	127%
Orrstown Financial Services / Mercersburg Financial Corporation	\$ 32	37.4x <sup>(1)</sup>	153%

Source: S&P Global Market Intelligence

- (1) Not adjusted for the impact of Tax Cuts and Jobs Act for the quarter ended December 31, 2017. Deal Value/Last 12 Months Earnings is 23.2x if the effective tax rate for the Last 12 Months is set at 14.5%, the effective tax rate of Mercersburg Financial Corporation for the three months ended March 31, 2018.



**Table of Contents***Selected Companies Analysis of Orrstown Financial Services*

Ambassador performed a selected companies analysis by comparing the financial and stock performance of Orrstown Financial Services with those of the following 11 selected publicly traded financial institutions, referred to as the comparable institutions, that were headquartered in Pennsylvania, were not mutual institutions, unionized companies, thrifts or merger or acquisition targets, and had assets between \$1.15 million and \$2.50 billion, average one-year daily trading volume greater than 500 shares, and nonperforming assets to assets ratios less than 1.50%:

**Overview of Orrstown Financial Services and Comparable Institutions**

Institution	Assets <sup>(1)</sup> (In Millions)	City, State	Ticker	Exchange
ACNB Corporation	\$1,611	Gettysburg, PA	ACNB	NASDAQ
Citizens & Northern Corporation	1,258	Wellsboro, PA	CZNC	NASDAQ
Codorus Valley Bancorp, Inc.	1,725	York, PA	CVLY	NASDAQ
FNCB Bancorp, Inc.	1,189	Dunmore, PA	FNCB	NASDAQ
Franklin Financial Services Corporation	1,169	Chambersburg, PA	FRAF	OTCQX
Mid Penn Bancorp, Inc.	1,391	Millersburg, PA	MPB	NASDAQ
Penns Woods Bancorp, Inc.	1,527	Williamsport, PA	PWOD	NASDAQ
Peoples Financial Services Corp.	2,190	Scranton, PA	PFIS	NASDAQ
QNB Corp.	1,172	Quakertown, PA	QNBC	OTC Pink
Republic First Bancorp, Inc.	2,471	Philadelphia, PA	FRBK	NASDAQ
Riverview Financial Corporation	1,171	Harrisburg, PA	RIVE	OTCQX

Source: S&P Global Market Intelligence

(1) Financial data as of March 31, 2018.

Ambassador compared the financial performance of Orrstown Financial Services and the comparable institutions as indicated in the following table:

**Financial Performance of Orrstown Financial Services and Comparable Institutions<sup>(1)</sup>**

	Assets (In Millions)	Tangible Equity/ Tangible Assets	Tangible Common Equity/ Tangible Assets	Nonperforming Assets/ Assets	Return on Average Assets	Return on Average Equity
High	\$ 2,471	14.00%	14.00%	1.28%	1.15%	8.46%
75 <sup>th</sup> Percentile	1,725	9.43	9.43	1.15	0.82	7.71
Median	1,391	8.44	8.44	0.92	0.72	7.36
25 <sup>th</sup> Percentile	1,172	7.93	7.93	0.56	0.23	2.20
Low	1,169	6.96	6.96	0.45	-0.17	-1.83
Orrstown Financial Services	\$ 1,636	8.66%	8.66%	.71%	.63%	6.80%

Source: S&P Global Market Intelligence.

(1) Financial data is as of March 31, 2018, or the twelve months ended March 31, 2018.



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Ambassador then compared the stock performance of Orrstown Financial Services and the comparable institutions as indicated in the following table:

**Stock Performance of Orrstown Financial Services and Comparable Institutions<sup>(1)</sup>**

	Earnings per Share		Stock Price/ Tangible		Assets Per Share	Dividend Yield	Shares Traded Daily <sup>(2)</sup>
	Last 12 Months	Most Recent Quarter (annualized)	Book Value Per Share	Per Share			
High	60.8x	71.9x	223%	24.2%	4.35%	154,752	
75th Percentile	39.7	18.9	180	16.5	3.20	10,545	
Median	21.0	16.2	175	14.1	2.78	6,621	
25th Percentile	18.8	11.4	162	13.6	1.76	2,595	
Low	17.7	10.1	143	9.7	.00	1,247	
Orrstown Financial Services	22.1x	15.1x	155%	13.4%	1.99%	13,457	

Source: S&P Global Market Intelligence.

(1) Financial data is as of March 31, 2018, or the twelve or three months ended March 31, 2018. Market data is as of May 25, 2018.

(2) Average volume of shares traded daily over the past year.

Ambassador also reviewed the historical stock price performance of Orrstown Financial Services relative to the comparable institutions and selected stock indices, as indicated in the following tables:

**Orrstown Financial Services Historical Stock Performance****Relative to Comparable Institutions and Selected Indices**

Date	One-Year Stock Performance			
	Orrstown Financial Services (ORRF)	Comparable Institutions	S&P 500	NASDAQ Bank Index
May 25, 2018	118%	112%	113%	118%
May 25, 2017	100	100	100	100

Date	Three-Year Stock Performance			
	Orrstown Financial Services (ORRF)	Comparable Institutions	S&P 500	NASDAQ Bank Index
May 25, 2018	150%	146%	129%	157%

May 26, 2015

100

100

100

100

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### *Discounted Dividend Analysis of Orrstown Financial Services*

Ambassador performed a discounted dividend analysis to estimate a range for the implied equity value of Orrstown Financial Services common stock. In this analysis, Ambassador assumed discount rates of 10%, 12% and 14% and calculated terminal values of 14x and 18x estimated earnings per share at the end of seven years. Ambassador used research analysts' estimates for Orrstown Financial Services and long-term growth rate and other assumptions for Orrstown Financial Services provided to Ambassador by the management of Orrstown Financial Services. This analysis indicated an implied present value range of Orrstown Financial Services common stock of \$17.82 per share to \$27.98 per share, which are 10.3x and 16.3x, respectively, Orrstown Financial Services' annualized first quarter 2018 earnings per share and 106% and 167%, respectively, of Orrstown Financial Services' tangible book value per share as of March 31, 2018.

### *Financial Impact Analysis on Orrstown Financial Services*

Ambassador also conducted a financial impact analysis assuming that the merger will close at the end of the fourth quarter of 2018. Ambassador used historical financial data as of March 31, 2018, or for the three months ended March 31, 2018, financial projections and forecasts for Mercersburg Financial Corporation provided to Ambassador by the management of Mercersburg Financial Corporation, the most recent research analysts' estimates for Orrstown Financial Services and projected cost savings anticipated by the management of Orrstown Financial Services to be realized from the merger. Ambassador also incorporated other pro forma assumptions as provided by Orrstown Financial Services. The analysis indicated that the merger could be dilutive to tangible book value per share as of December 31, 2018 and could be accretive to earnings per share for the twelve months ended December 31, 2018. Furthermore, Ambassador's analysis indicated that, pro forma for the merger, Orrstown Financial Services' tangible equity to tangible assets ratio as of December 31, 2018 could be lower. All of the results of Ambassador's financial impact analysis may vary materially from the actual results achieved by Orrstown Financial Services.

### *Other Disclosures*

Ambassador, as part of its financial advisory business, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions and valuations for corporate and other purposes. Mercersburg Financial Corporation selected Ambassador to act as a financial advisor and to provide a fairness opinion based on Ambassador's experience, including in connection with mergers and acquisitions of commercial banks and bank holding companies.

Mercersburg Financial Corporation has agreed to pay Ambassador a fee for its services totaling approximately \$405,000, a portion of which fee became payable upon presentation of Ambassador's opinion and execution of the merger agreement and approximately \$290,000 of Ambassador's fee is contingent upon the closing of the merger. In addition, portions of Ambassador's fee became payable upon the signing of Ambassador's engagement agreement and upon the execution of an exclusivity agreement between Mercersburg Financial Corporation and Orrstown Financial Services, and a portion of Ambassador's fee is payable upon the mailing of the proxy statement/prospectus. Mercersburg Financial Corporation has also agreed to reimburse Ambassador's reasonable out-of-pocket expenses incurred in connection with its engagement and to indemnify Ambassador against certain liabilities arising out of the performance of its obligations under the engagement letter.

Over the two years preceding the date of Ambassador's opinion, Ambassador did not provide investment banking or other consulting services to Mercersburg Financial Corporation or Orrstown Financial Services for which Ambassador received compensation from Mercersburg Financial Corporation or Orrstown Financial Services. In the future, Ambassador may pursue the opportunities to provide investment banking and other consulting services to

Mercersburg Financial Corporation and Orrstown Financial Services.

Ambassador is an approved broker-dealer for First Community Bank of Mercersburg and periodically purchases securities from and sells securities to First Community Bank of Mercersburg.

Ambassador's fairness committee approved the issuance of its opinion letter dated May 31, 2018.

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**Orrstown Financial Services Reasons for the Merger**

In the course of its evaluation of the merger and the merger agreement, the board of directors of Orrstown Financial Services consulted with its management, Hovde Group, LLC (its financial advisor) and Goodwin Procter LLP (its legal counsel). The boards discussed the proposed merger in a series of meetings between March 22, 2018 and May 31, 2018, when it approved the merger and the merger agreement. In reaching the decision to approve the merger agreement and related transactions, the board of directors of Orrstown Financial Services considered a number of factors, including, among others, the following:

information concerning the business, operations, financial condition, earnings and prospects of each of Orrstown Financial Services and Mercersburg Financial Corporation as separate entities and on a combined basis;

their understanding of the current environment in the financial services industry and current financial market conditions;

the compatibility of the businesses, operations and cultures of the two companies, particularly with respect to meeting local banking needs;

the pro forma financial effects of the proposed transaction, including the expected dilution to tangible book value per share;

the terms and conditions of the merger agreement, including the financial terms, and the structure of the merger;

the fact that the merger agreement contains restrictions on the ability of Mercersburg Financial Corporation to solicit proposals for alternative transactions or engage in discussions regarding such proposals including the requirement of Mercersburg Financial Corporation to pay a termination fee of \$1,250,000 in certain circumstances to terminate the merger agreement;

the intention for the merger to qualify as a tax free reorganization and thus the shares of Mercersburg Financial Corporation common stock can be exchanged for shares of Orrstown Financial Services common stock on a tax free basis;

the ability to complete the merger, including the conditions to the merger requiring receipt of necessary regulatory approvals in accordance with the terms of the merger agreement;

the possibility of costs and delays resulting from seeking the regulatory approvals necessary to complete the transactions provided for in the merger agreement, the possibility that the banking regulatory authorities may impose restrictions on the combined operations of the two companies (including divestitures) in order to grant the required approvals and thus preventing Orrstown Financial Services from fully realizing the benefits of the merger, the possibility that the merger may not be completed if such approvals are not obtained, and the potential negative impacts on Orrstown Financial Services, its business and the price of Orrstown Financial Services common stock if such approvals are not obtained or restrictions are imposed;

the challenges of combining the businesses of two corporations;

the fact that the integration of Orrstown Financial Services and Mercersburg Financial Corporation may be complex and time consuming and may require substantial resources and effort, and the risk that if the combined bank is not successfully integrated, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected;

the potential risk of diverting management focus and resources from other strategic opportunities and from operational matters while working to implement the merger;

the transaction costs to be incurred by Orrstown Financial Services in connection with the merger; and

the opinion, dated May 31, 2018, of Hovde Group to the board of directors of Orrstown Financial Services as to the fairness, from a financial point of view as of the date of the opinion, to the holders of Orrstown Financial Services common stock of the merger consideration per share to be paid by Orrstown Financial Services to holders of Mercersburg Financial Corporation common stock.

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The foregoing discussion of the information and factors considered by the Orrstown Financial Services board of directors is not intended to be exhaustive, but is believed to include all material factors considered by the board of directors of Orrstown Financial Services. In view of the wide variety of factors it considered, the board did not find it practicable to assign any specific or relative weights to the factors considered. In addition, the board did not reach any specific conclusion on each factor considered, or any aspect of any particular factor, but conducted an overall analysis of these factors. Individual members of the board may have given different weight to different factors. However, after taking into account all of the factors set forth above, the board of directors of Orrstown Financial Services unanimously approved the merger agreement.

**There can be no assurance that the potential synergies or opportunities considered by the boards will be achieved through completion of the merger. See the section of this proxy statement/prospectus titled Risk Factors Risks Relating to the Merger beginning on page 23.**

## **Accounting Treatment**

The merger will be accounted for using the acquisition method of accounting with Orrstown Financial Services treated as the acquiror. Under this method of accounting, Mercersburg Financial Corporation's assets and liabilities will be recorded by Orrstown Financial Services at their respective fair values as of the closing date of the merger and added to those of Orrstown Financial Services. Any excess of purchase price over the net fair values of Mercersburg Financial Corporation&#