

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ► IRC sections 354, 356, 358 and 1001

18 Can any resulting loss be recognized? ► No loss can be recognized upon the exchange by any Mercersburg shareholder who elects to receive one or more whole shares of ORRF common stock in the exchange. Those Mercersburg shareholders who elect to receive only cash in the exchange can recognize a taxable loss for the excess, if any, of their tax basis in the Mercersburg shares surrendered over the cash received.

If a taxable loss is calculated on the deemed sale of a fractional share of ORRF common stock deemed to have been received in the exchange, this loss can be recognized by any Mercersburg shareholder, regardless of whether they received one or more whole shares of ORRF common stock in the exchange.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ► The transaction was consummated on October 1, 2018. Consequently, the reportable tax year of the Mercersburg shareholders for reporting the tax effect of the share exchange is the tax year that includes the October 1, 2018 date. This is the 2018 calendar year for those who report taxable income on the basis of a calendar year.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here
Signature ► *David P. Boyle* Date ► 11/9/2018
Print your name ► DAVID P. BOYLE Title ► SVP/CFO

Paid Preparer Use Only	Print/Type preparer's name David A. Thornton, CPA	Preparer's signature <i>David A. Thornton</i>	Date 2018.10.31 14:34:25 -04'00'	Check <input type="checkbox"/> if self-employed	PTIN P00032537
	Firm's name ► Crowe LLP	Firm's EIN ► 35-0921680		Phone no. 212-572-5500	
	Firm's address ► 488 Madison Avenue, Floor 3, New York, NY 10022				

Orrstown Financial Services, Inc.
23-2530374
Attachment to Form 8937

REPORT OF ORGANIZATIONAL ACTIONS AFFECTING BASIS OF SECURITIES

Form 8937 Part I, Box 9:

The securities subject to reporting include all shares of Orrstown Financial Services, Inc. ("ORRF") common stock issued in exchange for the outstanding common stock of Mercersburg Financial Corporation ("Mercersburg") as a result of the merger of Mercersburg with and into ORRF on October 1, 2018.

Form 8937 Part II, Box 14:

The reportable organizational action involves the merger of Mercersburg with and into ORRF on October 1, 2018. As a result of this merger, each share of Mercersburg common stock was exchanged for either: (i) 1.5291 shares of ORRF common stock; or (ii) \$40.00 in cash. To the extent that the exchange would have resulted in the issuance of a fractional share of ORRF common stock to a Mercersburg shareholder, a cash payment equal to the market value equivalent of the ORRF fractional share was paid in lieu of issuing such fractional share.

Form 8937 Part II, Box 15:

The merger of Mercersburg with and into ORRF qualifies as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. As a result, each Mercersburg shareholder will recognize a taxable gain, or in some cases a taxable loss as follows:

- 1) For those Mercersburg shareholders who elect to receive only cash for their Mercersburg shares in the exchange, taxable gain or loss will be recognized for the difference between the cash received and the tax basis of the Mercersburg shares surrendered
- 2) For those Mercersburg shareholders who elect to receive only ORRF shares in the exchange, no taxable gain or loss will be recognized
- 3) For those Mercersburg shareholders who elect to receive a combination of cash and ORRF shares in the exchange, taxable gain (but not a taxable loss) will be recognized in an amount equal to the lesser of:
 - i. The amount of cash received in the exchange; or
 - ii. The amount, if any, by which the sum of the cash received plus the fair market value of the shares of ORRF common stock received in the exchange (measured at the time of the exchange) exceeds the tax basis of the Mercersburg shares surrendered

For purposes of calculating this taxable gain, the amount of cash received in the exchange does not include cash received in lieu of fractional shares of ORRF common stock (see discussion of cash received in lieu of fractional shares below).

Gain or loss must be calculated separately for each identifiable block of Mercersburg common shares surrendered in the exchange having a common tax basis. A loss realized on one block of Mercersburg common shares may not be used to offset a gain realized on another block of Mercersburg common shares. Each Mercersburg shareholder is encouraged to consult their own personal tax advisor regarding the determination of this realized gain or loss on the exchange.

Each Mercersburg shareholder that receives ORRF shares in the exchange is required to determine the tax basis of the shares of ORRF stock received in the exchange by performing the following calculations separately for each identifiable block of Mercersburg common shares surrendered in the exchange having a common tax basis:

- 1) Begin with the aggregate tax basis of the Mercersburg common shares surrendered in the exchange
- 2) Add the amount of taxable gain, if any, determined from the above calculation (excluding any gain or loss resulting from the deemed receipt and sale of fractional shares described below)
- 3) Subtract the total amount of cash received (excluding any cash received in lieu of fractional shares described below)
- 4) Subtract the tax basis in any fractional shares of ORRF common stock that were deemed to have been received in the exchange and immediately sold (see the treatment of fractional shares described below)

The resulting figure represents the aggregate tax basis of the shares of ORRF common stock received in the exchange for that identifiable block of Mercersburg common shares transferred. The tax basis of each individual share of ORRF common stock within this identifiable block is determined by dividing this aggregate tax basis by the number of ORRF common shares that comprise this identifiable block.

Mercersburg shareholders who receive cash in lieu of a fractional share of ORRF common stock are, for purposes of determining the taxability of that cash, deemed to have received the fractional share in the exchange and then as having sold the fractional share for cash. These Mercersburg shareholders will generally recognize a taxable gain or loss equal to the difference between the tax basis of the Mercersburg common shares deemed to have been exchanged for the fractional share and the amount of cash received.

Form 8937 Part II, Box 16:

Refer to the description of the basis calculation in Part II, Box 15 above. The October 1, 2018 closing price of a single share of ORRF common stock on the NASDAQ Stock Exchange was \$24.54.