ACNB CORP
Form 10-K
March 13, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year-ended December 31, 2008

OR

o **TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 0-11783

ACNB CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2233457**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
16 Lincoln Square, Gettysburg, Pennsylvania	**17325-3129**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(717) 334-3161**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value $2.50 per Share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý

The aggregate market value of the voting stock held by nonaffiliates of the registrant at June 30, 2008, was approximately $90,193,000.

The number of shares of the registrant's common stock outstanding on March 6, 2009, was 5,955,943.

Documents Incorporated by Reference

Portions of the registrant's 2009 definitive Proxy Statement are incorporated by reference into Part III of this report.

ACNB CORPORATION

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PART I

The management of ACNB Corporation has made forward-looking statements in this Annual Report on Form 10-K. These forward-looking statements may be subject to risks and uncertainties. Forward-looking statements include the information concerning possible or assumed future results of operations of ACNB Corporation and its wholly-owned subsidiaries Adams County National Bank, BankersRe Insurance Group, SPC (formerly Pennbanks Insurance Co., SPC), and Russell Insurance Group, Inc. When words such as "believes," "expects," "anticipates," "may," "could," "should," "estimates," or similar expressions occur in this annual report, management is making forward-looking statements.

Stockholders should note that many factors, some of which are discussed elsewhere in this report, could affect the future financial results of ACNB Corporation and its subsidiaries, both individually and collectively, and could cause those results to differ materially from those expressed in this report. These risk factors include the following:

- Operating, legal and regulatory risks;
- Economic, political and competitive forces impacting our various lines of business;
- The risk that our analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful;
- The possibility that increased demand or prices for ACNB's financial services and products may not occur;
- Volatility in interest rates; and/or,
- Other risks and uncertainties.

ACNB undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this report. Readers should carefully review the risk factors described in other documents ACNB files periodically with the Securities and Exchange Commission, including Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

ITEM 1 BUSINESS

ACNB CORPORATION

ACNB Corporation is a $977 million financial holding company headquartered in Gettysburg, Pennsylvania. Through its banking and nonbanking subsidiaries, ACNB provides a full range of banking and financial services to individuals and businesses, including commercial and retail banking, trust and investment management, and insurance. ACNB's operations are conducted through its primary operating subsidiary, Adams County National Bank, with 21 retail banking offices in Adams, Cumberland and York Counties, as well as two loan production offices in York and Franklin Counties, Pennsylvania. The loan production office in Hanover, York County, opened in February 2009. The Corporation was formed in 1982, then became the holding company for Adams County National Bank in 1983.

On January 5, 2005, ACNB Corporation completed the acquisition of Russell Insurance Group, Inc. and Russell Insurance Group, Inc. began to operate as a separate subsidiary of ACNB Corporation. In accordance with the terms of the acquisition, there was contingent consideration associated with this transaction of up to $3,000,000, payable in 2008 subject to performance criteria for the three-year period subsequent to the acquisition. Due to performance at a higher level than the performance criteria, the liability for this consideration was recorded at December 31, 2006, with a related increase in goodwill. Payment was made in the second quarter of 2008 after it was ascertained that the performance criteria had been met for the full three-year period; after which, the total

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aggregate purchase price was $8,663,000. In addition, on November 9, 2007, the Corporation entered into another three-year employment contract with Frank C. Russell, Jr., President & Chief Executive Officer of Russell Insurance Group, Inc., effective as of January 1, 2008.

In 2007, Russell Insurance Group, Inc. acquired two additional books of business with an aggregate purchase price of $637,000. In 2008, Russell Insurance Group, Inc. acquired an additional book of business with an aggregate purchase price of $1,165,000, all of which was classified as an intangible asset. Also, on December 31, 2008, Russell Insurance Group, Inc. acquired Marks Insurance & Associates, Inc. with an aggregate purchase price of $1,857,000, of which $1,300,000 was recorded as an intangible asset and $557,000 was recorded as goodwill. The intangible assets (excluding goodwill) are being amortized over ten years on a straight line basis. The contingent consideration for both 2008 purchases is payable three years after closing, based on multiples of sellers' commissions, with a maximum payment of $1,800,000.

ACNB's major source of operating funds is dividends that it receives from its subsidiary bank. ACNB's expenses consist principally of losses from low-income housing investments and interest paid on a term loan used to purchase Russell Insurance Group. Inc. Dividends that ACNB pays to stockholders consist of dividends declared and paid to ACNB by the subsidiary bank.

ACNB and its subsidiaries are not dependent upon a single customer or a small number of customers, the loss of which would have a material adverse effect on the Corporation. ACNB does not depend on foreign sources of funds, nor does it make foreign loans.

The common stock of ACNB is listed on the Over The Counter Bulletin Board under the symbol ACNB.

Russell Insurance Group, Inc. is managed separately from the banking and related financial services that the Corporation offers and is reported as a separate segment. Financial information on this segment is included in Notes to Consolidated Financial Statements, Note S "Segment and Related Information".

BANKING SUBSIDIARY

Adams County National Bank

Adams County National Bank is a full-service commercial bank operating under charter from the Office of the Comptroller of the Currency. The Bank's principal market area is Adams County, Pennsylvania, which is located in southcentral Pennsylvania. Adams County depends on agriculture, industry and tourism to provide employment for its residents. No single sector dominates the county's economy. At December 31, 2008, Adams County National Bank had total assets of $961 million, total loans of $641 million, and total deposits of $690 million.

The main office of the Bank is located at 16 Lincoln Square, Gettysburg, Pennsylvania. In addition to its main office, the Bank has fourteen branches in Adams County, three branches in York County, and three branches in Cumberland County, as well as a loan production office in both York County and Franklin County, Pennsylvania. Adams County National Bank's service delivery channels for its customers also include the ATM network, Customer Contact Center, and Internet and Telephone Banking. The Bank is subject to regulation and periodic examination by the Office of the Comptroller of the Currency. The Federal Deposit Insurance Corporation, as provided by law, insures the Bank's deposits.

Commercial lending includes commercial mortgages, real estate development and construction, accounts receivable and inventory financing, and agricultural loans. Consumer lending programs include home equity loans and lines of credit, automobile and recreational vehicle loans, manufactured housing

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loans, and personal lines of credit. Mortgage lending programs include personal residential mortgages, residential construction loans, and investment mortgage loans.

NONBANKING SUBSIDIARIES

BankersRe Insurance Group, SPC

BankersRe Insurance Group, SPC (formerly Pennbanks Insurance Co., SPC) was organized in 2000 and holds an unrestricted Class "B" Insurer's License under Cayman Islands Insurance Law. The segregated portfolio is engaged in the business of reinsuring credit life and credit accident and disability risks. Total assets of the segregated portfolio as of December 31, 2008, totaled $231,000.

Russell Insurance Group, Inc.

In January 2005, ACNB Corporation acquired Russell Insurance Group, Inc., a full-service insurance agency that offers a broad range of property and casualty, life, and health insurance to both commercial and individual clients. Based in Westminster, Maryland, Russell Insurance Group, Inc. has served the needs of its clients since its founding as an independent insurance agency by Frank C. Russell, Jr. in 1978. With the acquisition of Marks Insurance & Associates, Inc. as of December 31, 2008, Russell Insurance Group, Inc. operates a second office location in Germantown, Maryland.

COMPETITION

The financial services industry in ACNB's market area is highly competitive, including competition for similar products and services from commercial banks, credit unions, finance and mortgage companies, and other nonbank providers of financial services. Several of ACNB's competitors have legal lending limits that exceed those of ACNB's subsidiary, as well as funding sources on the capital markets that exceed ACNB's availability. The increased competition has resulted from a changing legal and regulatory environment, as well as from the economic climate, customer expectations, and service alternatives via the Internet.

Many bank holding companies have elected to become financial holding companies under the Gramm-Leach-Bliley Act, which gives them a broader range of products with which ACNB must compete. Although the long-range effects of this development cannot be predicted, it will probably further narrow the differences and intensify competition among commercial banks, investment banks, insurance firms, and other financial services companies.

SUPERVISION AND REGULATION

Bank Holding Company Regulation

BANK HOLDING COMPANY ACT OF 1956 ACNB is a financial holding company and is subject to the regulations of the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956. Bank holding companies are required to file periodic reports with and are subject to examination by the Federal Reserve. The Federal Reserve has issued regulations under the Bank Holding Company Act that require a financial holding company to serve as a source of financial and managerial strength to its subsidiary bank. As a result, the Federal Reserve may require ACNB to stand ready to use its resources to provide adequate capital funds to the Bank during periods of financial stress or adversity.

In addition, the Federal Reserve may require a financial holding company to end a nonbanking business if the nonbanking business constitutes a serious risk to the financial soundness and stability of any banking subsidiary of the financial holding company.

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The Bank Holding Company Act prohibits ACNB from acquiring direct or indirect control of more than 5% of the outstanding voting stock of any bank, or substantially all of the assets of any bank, or merging with another bank holding company, without the prior approval of the Federal Reserve. The Bank Holding Company Act allows interstate bank acquisitions and interstate branching by acquisition and consolidation in those states that had not elected to opt out by the required deadline. The Pennsylvania Department of Banking also must approve any similar consolidation. Pennsylvania law permits Pennsylvania financial holding companies to control an unlimited number of banks.

In addition, the Bank Holding Company Act restricts ACNB's nonbanking activities to those that are determined by the Federal Reserve Board to be financial in nature, incidental to such financial activity, or complementary to a financial activity. The Bank Holding Company Act does not place territorial restrictions on the activities of nonbanking subsidiaries of financial holding companies.

GRAMM-LEACH-BLILEY ACT OF 1999 (GLBA) The Gramm-Leach-Bliley Act of 1999 eliminated many of the restrictions placed on the activities of bank holding companies that become financial holding companies. Among other things, the Gramm-Leach-Bliley Act repealed certain Glass-Steagall Act restrictions on affiliations between banks and securities firms, and amended the Bank Holding Company Act to permit bank holding companies that are financial holding companies to engage in activities, and acquire companies engaged in activities, that are: financial in nature (including insurance underwriting, insurance company portfolio investment, financial advisory, securities underwriting, dealing and market-making, and merchant banking activities); incidental to financial activities; or, complementary to financial activities if the Federal Reserve determines that they pose no substantial risk to the safety or soundness of depository institutions or the financial system in general. The Gramm-Leach-Bliley Act also permits national banks, under certain circumstances, to engage through special financial subsidiaries in the financial and other incidental activities authorized for financial holding companies.

REGULATION W Transactions between a bank and its "affiliates" are quantitatively and qualitatively restricted under the Federal Reserve Act. The Federal Deposit Insurance Act applies Sections 23A and 23B to insured nonmember banks in the same manner and to the same extent as if they were members of the Federal Reserve System. The Federal Reserve has also issued Regulation W, which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act, and interpretative guidance with respect to affiliate transactions. Regulation W incorporates the exemption from the affiliate transaction rules, but expands the exemption to cover the purchase of any type of loan or extension of credit from an affiliate. Affiliates of a bank include, among other entities, the bank's holding company and companies that are under common control with the bank. ACNB Corporation and Russell Insurance Group, Inc. are considered to be affiliates of Adams County National Bank.

USA PATRIOT ACT OF 2001 In October 2001, the USA Patriot Act of 2001 was enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C., which occurred on September 11, 2001. The Patriot Act is intended to strengthen U.S. law enforcement's and the intelligence communities' abilities to work cohesively to combat terrorism on a variety of fronts. The potential impact of the Patriot Act on financial institutions of all kinds is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

SARBANES-OXLEY ACT OF 2002 (SOA) On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002. The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities law.

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The SOA is the most far-reaching U.S. securities legislation enacted in some time. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, or the Exchange Act. Given the extensive SEC role in implementing rules relating to many of the SOA's new requirements, the final scope of these requirements remains to be determined.

The SOA includes very specific additional disclosure requirements and new corporate governance rules; requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance, and other related rules; and, mandates further studies of certain issues by the SEC. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The SOA addresses, among other matters:

- Audit committees for all reporting companies;
- Certification of financial statements by the chief executive officer and the chief financial officer;
- The forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve-month period following initial publication of any financial statements that later require restatement;
- A prohibition on insider trading during pension plan black out periods;
- Disclosure of off-balance sheet transactions;
- A prohibition on personal loans to directors and officers;
- Expedited filing requirements for Forms 4;
- Disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;
- "Real time" filing of periodic reports;
- Formation of a public accounting oversight board;
- Auditor independence; and,
- Increased criminal penalties for violations of securities laws.

The SEC has been delegated the task of enacting rules to implement various provisions with respect to, among other matters, disclosure in periodic filings pursuant to the Exchange Act.

AMERICAN JOBS CREATION ACT OF 2004 In 2004, the American Jobs Creation Act was enacted as the first major corporate tax act in years. The act addresses a number of areas of corporate taxation including executive deferred compensation restrictions. The impact of the act on

ACNB is not material.

EMERGENCY ECONOMIC STABILIZATION ACT OF 2008 (EESA) In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 was signed into law. Pursuant to the EESA, the U.S. Treasury has the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities, and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. The EESA included a provision for a temporary increase in FDIC insurance from $100,000 to $250,000 per depositor through December 31, 2009.

On October 14, 2008, U. S. Treasury Secretary Paulson, after consulting with the Federal Reserve and the FDIC, announced that the Department of the Treasury will purchase equity stakes in a wide

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variety of banks and thrifts. Under this program, known as the Troubled Asset Relief Program (TARP) Capital Purchase Program, from the $700 billion authorized by the EESA, the Treasury will make $250 billion of capital available to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions will be required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the TARP Capital Purchase Program.

Also on October 14, 2008, after receiving a recommendation from the boards of the FDIC and the Federal Reserve, and consulting with the President, Secretary Paulson signed the systemic risk exception to the FDIC Act, enabling the FDIC to temporarily provide a 100% guarantee of the senior debt of all FDIC-insured institutions and their holding companies, as well as all deposits in non-interest bearing transaction deposit accounts, under a Temporary Liquidity Guarantee Program. Coverage under the Temporary Liquidity Guarantee Program was available for a 30-day period without charge, and thereafter at a cost of 75 basis points per annum for senior unsecured debt and 10 basis points per annum for non-interest bearing transaction deposits.

It is not clear at this time what impact the EESA, TARP Capital Purchase Program, Temporary Liquidity Guarantee Program, other liquidity and funding initiatives of the Federal Reserve and other agencies that have been previously announced, and any additional programs that may be initiated in the future will have on the financial markets and the other difficulties described above, including the extreme levels of volatility and limited credit availability currently being experienced, or on the U.S. banking and financial industries and the broader U.S. and global economies. Further adverse effects could have an adverse effect on the Corporation and its business.

In the fourth quarter of 2008, ACNB evaluated the merits of participating in the TARP Capital Purchase Program and decided against making application for this voluntary program. With regard to the Temporary Liquidity Guarantee Program, ACNB opted out of participation in the guarantee for newly-issued senior unsecured debt, but elected to participate in the unlimited coverage for non-interest bearing transaction accounts for the benefit of its depositors. Please refer to the "Capital" section of the Management's Discussion and Analysis.

Dividends

ACNB is a legal entity separate and distinct from its subsidiary bank. ACNB's revenues, on a parent company only basis, result almost entirely from dividends paid to the Corporation by its subsidiary bank. Federal and state laws regulate the payment of dividends by ACNB's subsidiary bank. Please refer to "Regulation of Bank" below.

Regulation of Bank

The operations of the subsidiary bank are subject to federal and state statutes applicable to banks chartered under the banking laws of the United States, to members of the Federal Reserve System, and to banks whose deposits are insured by the FDIC. The subsidiary bank's operations are also subject to regulations of the Office of the Comptroller of the Currency, Federal Reserve and FDIC.

The Office of the Comptroller of the Currency, which has primary supervisory authority over national banks, regularly examines banks in such areas as reserves, loans, investments, management practices, and other aspects of operations. These examinations are designed for the protection of the subsidiary bank's depositors rather than ACNB's shareholders. The subsidiary bank must file quarterly and annual reports to the Federal Financial Institutions Examinations Council, or FFIEC.

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NATIONAL BANK ACT The National Bank Act requires the subsidiary national bank to obtain the prior approval of the Office of the Comptroller of the Currency for the payment of dividends if the total of all dividends declared by the bank in one year would exceed the bank's net profits in the current year, as defined and interpreted by regulation, plus retained earnings for the two preceding years, less any required transfers to surplus. In addition, the bank may only pay dividends to the extent that the retained net profits, including the portion transferred to surplus, exceed statutory bad debts, as defined by regulation. These restrictions have not had, nor are they expected to have, any impact on the Corporation's dividend policy.

FEDERAL DEPOSIT INSURANCE CORPORATION ACT OF 1991 Under the Federal Deposit Insurance Corporation Insurance Act of 1991, any depository institution, including the Bank, is prohibited from paying any dividends, making other distributions or paying any management fees if, after such payment, it would fail to satisfy the minimum capital requirement.

FEDERAL RESERVE ACT A subsidiary bank of a bank holding company is subject to certain restrictions and reporting requirements imposed by the Federal Reserve Act, including:

- Extensions of credit to the bank holding company, its subsidiaries, or principal shareholders;
- Investments in the stock or other securities of the bank holding company or its subsidiaries; and,
- Taking such stock or securities as collateral for loans.

COMMUNITY REINVESTMENT ACT OF 1977 (CRA) Under the Community Reinvestment Act of 1977, the Office of the Comptroller of the Currency is required to assess the record of all financial institutions regulated by it to determine if these institutions are meeting the credit needs of the community, including low and moderate income neighborhoods, which they serve and to take this record into account in its evaluation of any application made by any of such institutions for, among other things, approval of a branch or other deposit facility, office relocation, merger, or acquisition of bank shares. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 amended the CRA to require, among other things, that the Office of the Comptroller of the Currency make publicly available the evaluation of a bank's record of meeting the credit needs of its entire community, including low and moderate income neighborhoods. This evaluation includes a descriptive rating like "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance" and a statement describing the basis for the rating. These ratings are publicly disclosed.

FEDERAL DEPOSIT INSURANCE CORPORATION IMPROVEMENT ACT OF 1991 (FDICIA) The Federal Deposit Insurance Corporation Improvement Act requires that institutions be classified, based on their risk-based capital ratios into one of five defined categories, as illustrated below: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

	Total Risk-Based Ratio	Tier 1 Risk-Based Ratio	Tier 1 Leverage Ratio	Under a Capital Order or Directive
Capital Category				
Well capitalized	≥10.0%	≥6.0%	≥5.0%	NO
Adequately capitalized	≥8.0%	≥4.0%	≥4.0%*	
Undercapitalized	<8.0%	<4.0%	<4.0%*	
Significantly undercapitalized	<6.0%	<3.0%	<3.0%	
Critically undercapitalized			<2.0%	

* 3.0% for those banks having the highest available regulatory rating.

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In the event an institution's capital deteriorates to the undercapitalized category or below, FDICIA prescribes an increasing amount of regulatory intervention, including the institution of a capital restoration plan and a guarantee of the plan by a parent institution and the placement of a hold on increases in assets, number of branches, or lines of business. If capital reaches the significantly or critically undercapitalized levels, further material restrictions can be imposed, including restrictions on interest payable on accounts, dismissal of management, and, in critically undercapitalized situations, appointment of a receiver. For well capitalized institutions, FDICIA provides authority for regulatory intervention where the institution is deemed to be engaging in unsafe or unsound practices or receives a less than satisfactory examination report rating for asset quality, management, earnings or liquidity. All but well capitalized institutions are prohibited from accepting brokered deposits without prior regulatory approval. Under FDICIA, financial institutions are subject to increased regulatory scrutiny and must comply with certain operational, managerial and compensation standards developed by Federal Reserve Board regulations. FDICIA also requires the regulators to issue new rules establishing certain minimum standards to which an institution must adhere, including standards requiring a minimum ratio of classified assets to capital, minimum earnings necessary to absorb losses, and minimum ratio of market value to book value for publicly held institutions. Additional regulations are required to be developed relating to internal controls, loan documentation, credit underwriting, interest rate exposure, asset growth, and excessive compensation, fees and benefits.

Monetary and Fiscal Policy

ACNB and its subsidiary bank are affected by the monetary and fiscal policies of government agencies, including the Federal Reserve and FDIC. Through open market securities transactions and changes in its discount rate and reserve requirements, the Board of Governors of the Federal Reserve exerts considerable influence over the cost and availability of funds for lending and investment. The nature of monetary and fiscal policies on future business and earnings of ACNB cannot be predicted at this time. From time to time, various federal and state legislation is proposed that could result in additional regulation of, and restrictions on, the business of ACNB and the subsidiary bank, or otherwise change the business environment. Management cannot predict whether any of this legislation will have a material effect on the business of ACNB.

ACCOUNTING POLICY DISCLOSURE

Disclosure of the Corporation's significant accounting policies is included in Note A to the consolidated financial statements. Some of these policies are particularly sensitive requiring significant judgments, estimates and assumptions to be made by management. Additional information is contained in Management's Discussion and Analysis for the most sensitive of these issues, including the provision and allowance for loan losses which is located in Note D to the consolidated financial statements.

Management, in determining the allowance for loan losses, makes significant estimates. Consideration is given to a variety of factors in establishing this estimate. In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan review, financial and managerial strengths of borrowers, adequacy of collateral if collateral dependent or present value of future cash flows, and other relevant factors.

STATISTICAL DISCLOSURES

The following statistical disclosures are included in Management's Discussion and Analysis, Item 7 hereof, and are incorporated by reference in this Item 1:

Interest Rate Sensitivity Analysis

Interest Income and Expense, Volume and Rate Analysis

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Investment Portfolio

Loan Maturity and Interest Rate Sensitivity

Loan Portfolio

Allocation of Allowance for Loan Losses

Deposits

Short-Term Borrowings

AVAILABLE INFORMATION

The Corporation's reports, proxy statements, and other information are available for inspection and copying at the SEC Public Reference Room at 100 F Street, N.E., Washington, DC, 20549, at prescribed rates. The public may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Corporation is an electronic filer with the Commission. The Commission maintains a website that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the Commission. The address of the Commission's website is http://www.sec.gov.

Upon a stockholder's written request, a copy of the Corporation's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, as required to be filed with the SEC pursuant to Securities Exchange Act Rule 13a-1, may be obtained, without charge, from Lynda L. Glass, Executive Vice President & Secretary, 16 Lincoln Square, P.O. Box 3129, Gettysburg, PA 17325, or visit our website at http://www.acnb.com and click on "ACNB Corporation Investor Relations".

EMPLOYEES

As of December 31, 2008, ACNB had 269 full-time equivalent employees. None of these employees are represented by a collective bargaining agreement, and ACNB believes it enjoys good relations with its personnel.

ITEM 1A RISK FACTORS

ACNB IS SUBJECT TO INTEREST RATE RISK.

ACNB's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond ACNB's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the amount of interest ACNB receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) ACNB's ability to originate loans and obtain deposits, (ii) the fair value of ACNB's financial assets and liabilities, and (iii) the average duration of ACNB's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, ACNB's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on ACNB's results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on ACNB's financial condition and results of operations.

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ACNB IS SUBJECT TO CREDIT RISK.

As of December 31, 2008, approximately 44% of ACNB's loan portfolio consisted of commercial and industrial, construction, and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because ACNB's loan portfolio contains a significant number of commercial and industrial, construction, and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on ACNB's financial condition and results of operations.

ACNB'S ALLOWANCE FOR LOAN LOSSES MAY BE INSUFFICIENT.

ACNB maintains an allowance for loan losses, which is a reserve established through a provision for possible loan losses charged to expense, that represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and, unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires ACNB to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of ACNB's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review ACNB's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, ACNB will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on ACNB's financial condition and results of operations.

COMPETITION FROM OTHER FINANCIAL INSTITUTIONS MAY ADVERSELY AFFECT ACNB'S PROFITABILITY.

ACNB's banking subsidiary faces substantial competition in originating both commercial and consumer loans. This competition comes principally from other banks, credit unions, mortgage banking companies, and other lenders. Many of its competitors enjoy advantages, including greater financial resources with higher lending limits, wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, and lower origination and operating costs. This competition could reduce the Corporation's net income by decreasing the number and size of loans that its banking subsidiary originates and the interest rates it may charge on these loans.

In attracting business and consumer deposits, its banking subsidiary faces substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of ACNB's competitors enjoy advantages, including greater financial resources, wider geographic presence, more aggressive marketing campaigns, better brand recognition, and more convenient branch office locations. These competitors may offer higher interest rates than ACNB, which could decrease the deposits that it attracts or require it to increase its rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect ACNB's ability to generate the funds necessary for lending operations. As a result, it may need to seek other sources of funds that may be more expensive to obtain and could increase its cost of funds.

ACNB's banking subsidiary also competes with nonbank providers of financial services, such as brokerage firms, consumer finance companies, credit unions, insurance agencies, and governmental organizations which may offer more favorable terms. Some of its nonbank competitors are not subject to the same extensive regulations that govern its banking operations. As a result, such nonbank competitors may have advantages over ACNB's banking subsidiary in providing certain products and services. This competition may reduce or limit its margins on banking services, reduce its market share, and adversely affect its earnings and financial condition.

ACNB'S CONTROLS AND PROCEDURES MAY FAIL OR BE CIRCUMVENTED.

Management regularly reviews and updates ACNB's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of ACNB's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on ACNB's business, financial condition and results of operations.

ACNB'S ABILITY TO PAY DIVIDENDS DEPENDS PRIMARILY ON DIVIDENDS FROM ITS BANKING SUBSIDIARY, WHICH IS SUBJECT TO REGULATORY LIMITS AND THE BANK'S PERFORMANCE.

ACNB is a financial holding company and its operations are conducted by its subsidiaries. Its ability to pay dividends depends on its receipt of dividends from its subsidiaries. Dividend payments from its banking subsidiary are subject to legal and regulatory limitations, generally based on net profits and retained earnings, imposed by the various banking regulatory agencies. The ability of its subsidiaries to pay dividends is also subject to its profitability, financial condition, capital expenditures, and other cash flow requirements. There is no assurance that its subsidiaries will be able to pay dividends in the future or that ACNB will generate adequate cash flow to pay dividends in the future. ACNB's failure to pay dividends on its common stock could have a material adverse effect on the market price of its common stock.

ACNB'S PROFITABILITY DEPENDS SIGNIFICANTLY ON ECONOMIC CONDITIONS IN THE COMMONWEALTH OF PENNSYLVANIA AND THE STATE OF MARYLAND.

ACNB's success depends primarily on the general economic conditions of the Commonwealth of Pennsylvania, the State of Maryland, and the specific local markets in which ACNB operates. Unlike larger national or other regional banks that are more geographically diversified, ACNB provides banking and financial services to customers primarily in the southcentral Pennsylvania and northern Maryland region of the country. The local economic conditions in these areas have a significant impact on the demand for ACNB's products and services, as well as the ability of ACNB's customers to repay loans, the value of the collateral securing loans, and the stability of ACNB's deposit funding sources. A significant decline in general economic conditions caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets, or other factors could impact these local economic conditions and, in turn, have a material adverse effect on ACNB's financial condition and results of operations.

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NEW LINES OF BUSINESS OR NEW PRODUCTS AND SERVICES MAY SUBJECT ACNB TO ADDITIONAL RISKS.

From time to time, ACNB may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, ACNB may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business and/or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of ACNB's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business and new products or services could have a material adverse effect on ACNB's business, financial condition and results of operations.

ACNB MAY NOT BE ABLE TO ATTRACT AND RETAIN SKILLED PEOPLE.

ACNB's success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by ACNB can be intense, and ACNB may not be able to hire people or to retain them. The unexpected loss of services of one or more of ACNB's key personnel could have a material adverse impact on ACNB's business because of their skills, knowledge of ACNB's market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel. ACNB currently has employment agreements, including covenants not to compete, with the following executive officers its President & Chief Executive Officer, Executive Vice President & Secretary, and the President & Chief Executive Officer of Russell Insurance Group, Inc.

ACNB IS SUBJECT TO CLAIMS AND LITIGATION PERTAINING TO FIDUCIARY RESPONSIBILITY.

From time to time, customers make claims and take legal action pertaining to ACNB's performance of its fiduciary responsibilities. Whether customer claims and legal action related to ACNB's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to ACNB they may result in significant financial liability and/or adversely affect the market perception of ACNB and its products and services, as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on ACNB's business, which, in turn, could have a material adverse effect on ACNB's financial condition and results of operations.

THE TRADING VOLUME IN ACNB'S COMMON STOCK IS LESS THAN THAT OF OTHER LARGER FINANCIAL SERVICES COMPANIES.

ACNB's common stock trades on the Over The Counter Bulletin Board, and the trading volume in its common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of ACNB's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which ACNB has no control. Given the lower trading volume of ACNB's common stock, significant sales of ACNB's common stock, or the expectation of these sales, could cause ACNB's stock price to fall.

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ACNB OPERATES IN A HIGHLY REGULATED ENVIRONMENT AND MAY BE ADVERSELY AFFECTED BY CHANGES IN FEDERAL, STATE AND LOCAL LAWS AND REGULATIONS.

ACNB is subject to extensive regulation, supervision and/or examination by federal and state banking authorities. Any change in applicable regulations or federal, state or local legislation could have a substantial impact on ACNB and its operations. Additional legislation and regulations that could significantly affect ACNB's powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on its financial condition and results of operations. Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on ACNB's financial condition and results of operations.

Like other bank holding companies and financial institutions, ACNB must comply with significant anti-money laundering and anti-terrorism laws. Under these laws, ACNB is required, among other things, to enforce a customer identification program and file currency transaction and suspicious activity reports with the federal government. Government agencies have substantial discretion to impose significant monetary penalties on institutions which fail to comply with these laws or make required reports.

THE SOUNDNESS OF OTHER FINANCIAL INSTITUTIONS MAY ADVERSELY AFFECT ACNB.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. ACNB has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose ACNB to credit risk in the event of a default by a counterparty or client. In addition, ACNB's credit risk may be exacerbated when the collateral held by ACNB cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to ACNB. Any such losses could have a material adverse effect on ACNB financial condition and results of operations.

CURRENT LEVELS OF MARKET VOLATILITY ARE UNPRECEDENTED AND MAY HAVE MATERIALLY ADVERSE EFFECTS ON ACNB'S LIQUIDITY AND FINANCIAL CONDITION.

The capital and credit markets have been experiencing extreme volatility and disruption for more than 12 months. In recent weeks, the volatility and disruption have reached unprecedented levels. In some cases, the markets have exerted downward pressure on stock prices, security prices, and credit capacity for certain issuers without regard to those issuers' underlying financial strength. If the current levels of market disruption and volatility continue or worsen, there can be no assurance that ACNB will not experience adverse effects, which may be material, on its liquidity, financial condition, and profitability.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

Adams County National Bank, in addition to its main office, had a retail banking office network of twenty offices at December 31, 2008. All offices are located in Adams County with the exception of three offices located in Cumberland County and three offices located in York County. There is also a loan production office situated in Franklin County. Offices at fifteen locations are owned, while seven are leased. All real estate owned by the subsidiary bank is free and clear of encumbrances.

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ITEM 3 LEGAL PROCEEDINGS

As of December 31, 2008, there were no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which ACNB or its subsidiaries are a party or by which any of their property is the subject. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Corporation or the Bank by governmental authorities.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

There were no matters submitted to a vote of stockholders during the fourth quarter of 2008.

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PART II

ITEM 5 MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

ACNB Corporation's common stock trades on the Over The Counter Bulletin Board under the symbol ACNB. At December 31, 2008 and 2007, there were 20,000,000 shares of common stock authorized, 5,990,943 shares issued, and 5,955,943 and 5,990,943 shares outstanding, respectively. As of December 31, 2008, ACNB had approximately 2,602 stockholders of record. There is no other class of stock authorized or outstanding. At December 31, 2008, there were 35,000 shares of Treasury Stock purchased by ACNB Corporation through the common stock repurchase program approved in October 2008. ACNB is restricted as to the amount of dividends that it can pay to stockholders by virtue of the restrictions on the banking subsidiary's ability to pay dividends to ACNB under the National Bank Act and the rules and regulations of the Comptroller of the Currency. Please refer to Notes J and M of the consolidated financial statements. ACNB Corporation has no equity compensation plans.

There have been no unregistered sales of stock in 2008, 2007 or 2006.

The following table reflects the quarterly high and low prices of ACNB's common stock for the periods indicated and the cash dividends on the common stock for the periods indicated.

	Price Range Per Share		Per Share
	High	**Low**	**Dividend**
2008:			
First Quarter	**$ 15.75**	**$ 14.12**	**$ 0.19**
Second Quarter	**16.40**	**13.52**	**0.19**
Third Quarter	**16.40**	**14.50**	**0.19**
Fourth Quarter	**15.00**	**10.40**	**0.19**
2007:			
First Quarter	$ 19.38	$ 17.25	$ 0.19
Second Quarter	18.48	17.10	0.19
Third Quarter	17.60	15.95	0.19
Fourth Quarter	16.85	14.80	0.19

2007 amounts restated for the 5% common stock dividend distributed in December 2007.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
October 1 to October 31, 2008		**$**		**120,000**
November 1 to November 30, 2008	**17,500**	**12.74**	**17,500**	**102,500**
December 1 to December 31, 2008	**17,500**	**12.53**	**17,500**	**85,000**
Total	**35,000**		**35,000**	**85,000**

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	Period Ending					
Index	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**
ACNB Corporation	100.00	100.41	80.31	88.05	73.65	63.29
NASDAQ Composite	100.00	108.59	110.08	120.56	132.39	78.72
Mid-Atlantic Custom Peer Group*	100.00	113.29	113.25	115.44	107.89	83.30

* *Mid-Atlantic Custom Peer Group consists of Mid-Atlantic commercial banks with assets less than $1B as of December 26, 2008, and indicated below. Source: SNL Financial LC, Charlottesville, VA*

Company	City	State	Company	City	State
1st Colonial Bancorp, Inc.	Collingswood	NJ	Greater Hudson Bank	Middletown	NY
1st Constitution Bancorp	Cranbury	NJ	Hamlin Bank and Trust Company	Smethport	PA
1st Summit Bancorp of Johnstown, Inc.	Johnstown	PA	Harford Bank	Aberdeen	MD
Abigail Adams National Bancorp, Inc.	Washington	DC	Harvest Community Bank	Pennsville	NJ
Absecon Bancorp	Absecon	NJ	Highlands State Bank	Vernon	NJ
ACNB Corporation	Gettysburg	PA	Hilltop Community Bancorp, Inc.	Summit	NJ
Adirondack Trust Company	Saratoga Springs	NY	HNB Bancorp, Inc.	Halifax	PA
Allegheny Valley Bancorp, Inc.	Pittsburgh	PA	Honat Bancorp, Inc.	Honesdale	PA
Allegiance Bank of North America	Bala Cynwyd	PA	Hopewell Valley Community Bank	Pennington	NJ
American Bank Incorporated	Allentown	PA	Howard Bancorp, Inc.	Ellicott City	MD
AmeriServ Financial, Inc.	Johnstown	PA	IBW Financial Corporation	Washington	DC
Annapolis Bancorp, Inc.	Annapolis	MD	Jeffersonville Bancorp	Jeffersonville	NY
Ballston Spa Bancorp, Inc.	Ballston Spa	NY	Jonestown Bank and Trust	Jonestown	PA
Bancorp of New Jersey, Inc.	Fort Lee	NJ	Juniata Valley Financial Corp.	Mifflintown	PA
Bank of Akron	Akron	NY	Kinderhook Bank Corporation	Kinderhook	NY
Bank of Utica	Utica	NY	Kish Bancorp, Inc.	Reedsville	PA
Bay National Corporation	Lutherville	MD	Landmark Bancorp, Inc.	Pittston	PA
BCB Bancorp, Inc.	Bayonne	NJ	Liberty Bell Bank	Cherry Hill	NJ
Berkshire Bancorp Inc.	New York	NY	Luzerne National Bank Corporation	Luzerne	PA
Bridge Bancorp, Inc.	Bridgehampton	NY	Lyons Bancorp, Inc.	Lyons	NY
Brunswick Bancorp	New Brunswick	NJ	Madison National Bank	Hauppauge	NY

Calvin B. Taylor Bankshares, Inc.	Berlin	MD	Mainline Bancorp, Inc.	Ebensburg	PA
Carrollton Bancorp	Baltimore	MD	Manor Bank	Manor	PA
CB Financial Corp	Rehoboth Beach	DE	Mars National Bank	Mars	PA
CB Financial Services, Inc.	Carmichaels	PA	Maryland Bankcorp, Inc.	Lexington Park	MD

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Company	City	State	Company	City	State
CBT Financial Corporation	Clearfield	PA	Mauch Chunk Trust Financial Corp.	Jim Thorpe	PA
CCFNB Bancorp, Inc.	Bloomsburg	PA	Mercersburg Financial Corporation	Mercersburg	PA
Cecil Bancorp, Inc.	Elkton	MD	Mid Penn Bancorp, Inc.	Millersburg	PA
Central Jersey Bancorp	Oakhurst	NJ	Mifflinburg Bank & Trust Company	Mifflinburg	PA
Chemung Financial Corporation	Elmira	NY	MNB Corporation	Bangor	PA
Chesapeake Bancorp	Chestertown	MD	Muncy Bank Financial, Inc.	Muncy	PA
Citizens Financial Services, Inc.	Mansfield	PA	National Bank of Coxsackie	Coxsackie	NY
Citizens National Bank of Meyersdale	Meyersdale	PA	National Capital Bank of Washington	Washington	DC
Clarion County Community Bank	Clarion	PA	Neffs Bancorp, Inc.	Neffs	PA
Codorus Valley Bancorp, Inc.	York	PA	New Century Bank	Phoenixville	PA
Comm Bancorp, Inc.	Clarks Summit	PA	New Jersey Community Bank	Freehold	NJ
CommerceFirst Bancorp, Inc.	Annapolis	MD	New Millennium Bank	New Brunswick	NJ
Commercial National Financial Corporation	Latrobe	PA	New Windsor Bancorp, Inc.	New Windsor	MD
Community Bank of Bergen County	Maywood	NJ	Noble Community Bank	Sparta	NJ
Community Bankers' Corporation	Marion Center	PA	Northumberland Bancorp	Northumberland	PA
Community National Bank	Great Neck	NY	Norwood Financial Corp.	Honesdale	PA
Community Partners Bancorp	Middletown	NJ	Old Forge Bank	Old Forge	PA
Cornerstone Bank	Moorestown	NJ	Old Line Bancshares, Inc.	Bowie	MD
Country Bank Holding Company, Inc.	New York	NY	Orange County Bancorp, Inc.	Middletown	NY
County First Bank	La Plata	MD	Parke Bancorp, Inc.	Sewell	NJ
Damascus Community Bank	Damascus	MD	Pascack Community Bank	Westwood	NJ
Delaware Bancshares, Inc.	Walton	NY	Patapsco Bancorp, Inc.	Dundalk	MD
Delhi Bank Corp.	Delhi	NY	Penn Bancshares, Inc.	Pennsville	NJ
Delmar Bancorp	Delmar	MD	Penns Woods Bancorp, Inc.	Williamsport	PA
Dimeco, Inc.	Honesdale	PA	Penseco Financial Services Corporation	Scranton	PA
DNB Financial Corporation	Downingtown	PA	Peoples Bancorp, Inc.	Chestertown	MD
Eagle National Bancorp, Inc.	Upper Darby	PA	Peoples Financial Services Corp.	Hallstead	PA
Easton Bancorp, Inc.	Easton	MD	Peoples Limited	Wyalusing	PA
Emclaire Financial Corp.	Emlenton	PA	PSB Holding Corporation	Preston	MD
ENB Financial Corp.	Ephrata	PA	Putnam County National Bank of Carmel	Carmel	NY
Enterprise National Bank N.J.	Kenilworth	NJ	QNB Corp.	Quakertown	PA
ES Bancshares, Inc.	Newburgh	NY	Regal Bancorp, Inc.	Owings Mills	MD
Evans Bancorp, Inc.	Hamburg	NY	Republic First Bancorp, Inc.	Philadelphia	PA
Farmers and Merchants Bank	Upperco	MD	Rising Sun Bancorp	Rising Sun	MD
Fidelity D & D Bancorp, Inc.	Dunmore	PA	Rumson-Fair Haven Bank & Trust Co.	Rumson	NJ
First Americano Financial Corporation	Elizabeth	NJ	Scottdale Bank & Trust Company	Scottdale	PA
First Bank	Williamstown	NJ	Shore Community Bank	Toms River	NJ
First Bank of Delaware	Wilmington	DE	Solvay Bank Corporation	Solvay	NY
First Community Financial Corporation	Mifflintown	PA	Somerset Hills Bancorp	Bernardsville	NJ
First Keystone Corporation	Berwick	PA	Somerset Trust Holding Company	Somerset	PA
First National Bank of Groton	Groton	NY	Sterling Banks, Inc.	Mount Laurel	NJ
First National Bank of Port Allegany	Port Allegany	PA	Steuben Trust Corporation	Hornell	NY
First Perry Bancorp, Inc.	Marysville	PA	Stewardship Financial Corporation	Midland Park	NJ
First Resource Bank	Exton	PA	Sussex Bancorp	Franklin	NJ
First State Bank	Cranford	NJ	Tower Bancorp, Inc.	Greencastle	PA
Fleetwood Bank Corporation	Fleetwood	PA	Tri-County Financial Corporation	Waldorf	MD
FNB Bancorp, Inc.	Newtown	PA	Turbotville National Bancorp, Inc.	Turbotville	PA
FNBM Financial Corporation	Minersville	PA	Union National Financial Corporation	Lancaster	PA
Fort Orange Financial Corp.	Albany	NY	Unity Bancorp, Inc.	Clinton	NJ
Franklin Financial Services Corporation	Chambersburg	PA	USA Bank	Port Chester	NY
Frederick County Bancorp, Inc.	Frederick	MD	VSB Bancorp, Inc.	Staten Island	NY
Glen Burnie Bancorp	Glen Burnie	MD	WashingtonFirst Bank	Washington	DC
Glenville Bank Holding Company, Inc.	Scotia	NY	WebFinancial Corporation	New York	NY
GNB Financial Services, Inc.	Gratz	PA	West Milton Bancorp, Inc.	West Milton	PA
Gotham Bank of New York	New York	NY	Wilber Corporation	Oneonta	NY
			Woodlands Financial Service Company	Williamsport	PA

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ITEM 6 SELECTED FINANCIAL DATA

Dollars in thousands, except per share data	Year Ended December 31, 2008	2007	2006	2005	2004
INCOME STATEMENT DATA					
Interest income	**$ 47,921**	$ 51,581	$ 48,287	$ 42,284	$ 37,752
Interest expense	**18,897**	26,561	23,448	17,370	13,183
Net interest income	**29,024**	25,020	24,839	24,914	24,569
Provision for loan losses	**5,570**	500	870	516	300
Net interest income after provision for loan losses	**23,454**	24,520	23,969	24,398	24,269
Other income	**10,438**	10,364	9,912	8,885	5,865
Other expenses	**26,071**	25,030	24,666	24,497	18,571
Income before income taxes	**7,821**	9,854	9,215	8,786	11,563
Applicable income taxes	**1,077**	1,917	1,925	1,410	2,255
Net income	**$ 6,744**	$ 7,937	$ 7,290	$ 7,376	$ 9,308
BALANCE SHEET DATA (AT YEAR-END)					
Assets	**$ 976,679**	$ 926,665	$ 964,757	$ 945,136	$ 924,188
Securities	**252,536**	290,496	352,797	367,878	405,943
Loans, net	**630,330**	542,354	518,843	489,008	436,631
Deposits	**690,297**	670,640	669,705	679,381	646,872
Borrowings	**190,404**	161,012	205,503	185,085	196,966
Stockholders' equity	**84,439**	85,130	77,304	74,010	74,521
COMMON SHARE DATA*					
Earnings per share basic	**$ 1.13**	$ 1.32	$ 1.22	$ 1.23	$ 1.55
Cash dividends paid	**.76**	.76	.76	.83	.82
Book value per share	**14.18**	14.21	12.90	12.32	12.44
Weighted average number of common shares	**5,988,525**	5,990,943	5,990,943	5,990,943	5,990,943
Dividend payout ratio	**67.47%**	57.52%	62.63%	67.07%	52.56%
PROFITABILITY RATIOS AND CONDITION					
Return on average assets	**0.72%**	0.81%	0.76%	0.79%	1.04%
Return on average equity	**7.96%**	9.83%	9.72%	10.03%	12.84%
Average stockholders' equity to average assets	**9.10%**	8.23%	7.82%	7.92%	8.11%
SELECTED ASSET QUALITY RATIOS					
Non-performing loans to total loans	**1.52%**	0.41%	0.79%	1.40%	1.86%
Net charge-offs to average loans outstanding	**0.68%**	%	%	%	0.08%
Allowance for loan losses to total loans	**1.16%**	1.07%	1.03%	0.90%	0.89%
Allowance for loan losses to non-performing loans	**76.33%**	258.99%	130.42%	64.36%	47.94%

* All amounts restated for the 5% common stock dividends distributed in December 2006 and 2007.

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ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION AND FORWARD-LOOKING STATEMENTS

Introduction

The following is management's discussion and analysis of the significant changes in the financial condition, results of operations, capital resources, and liquidity presented in its accompanying consolidated financial statements for ACNB Corporation (the Corporation or ACNB), a financial holding company. Please read this discussion in conjunction with the consolidated financial statements and disclosures included herein. Current performance does not guarantee, assure or indicate similar performance in the future.

Forward-Looking Statements

In addition to historical information, this Form 10-K contains forward-looking statements. Examples of forward-looking statements include, but are not limited to, (a) projections or statements regarding future earnings, expenses, net interest income, other income, earnings or loss per share, asset mix and quality, growth prospects, capital structure, and other financial terms, (b) statements of plans and objectives of management or the Board of Directors, and (c) statements of assumptions, such as economic conditions in the Corporation's market areas. Such forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "intends", "will", "should", "anticipates", or the negative of any of the foregoing or other variations thereon or comparable terminology, or by discussion of strategy. Forward- looking statements are subject to certain risks and uncertainties such as local economic conditions, competitive factors, and regulatory limitations. Actual results may differ materially from those projected in the forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements. They only reflect management's analysis as of this date. The Corporation does not revise or update these forward-looking statements to reflect events or changed circumstances. Please carefully review the risk factors described in other documents the Corporation files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

Critical Accounting Policies

The accounting policies that the Corporation's management deems to be most important to the portrayal of its financial condition and results of operations, and that require management's most difficult, subjective or complex judgment, often result in the need to make estimates about the effect of such matters which are inherently uncertain. The following policies are deemed to be critical accounting policies by management:

> The allowance for loan losses represents management's estimate of probable losses inherent in the loan portfolio. Management makes numerous assumptions, estimates and adjustments in determining an adequate allowance. The Corporation assesses the level of potential loss associated with its loan portfolio and provides for that exposure through an allowance for loan losses. The allowance is established through a provision for loan losses charged to earnings. The allowance is an estimate of the losses inherent in the loan portfolio as of the end of each reporting period. The Corporation assesses the adequacy of its allowance on a quarterly basis. The specific methodologies applied on a consistent basis are discussed in greater detail under the caption, "Allowance for Loan Losses", in a subsequent section of the following Management's Discussion and Analysis of Financial Condition and Results of Operations.
>
> The evaluation of securities for other than temporary impairment requires a significant amount of judgment. In estimating other than temporary impairment losses, management considers

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various factors, including length of time the fair value has been below cost, the financial condition of the issuer, and the intent and ability of the Corporation to hold the securities until recovery. Declines in fair value that are determined to be other than temporary are charged against earnings.

SFAS No. 142, "Goodwill and Other Intangible Assets", requires that goodwill is not amortized to expense, but rather that it be tested for impairment at least annually. Impairment write-downs are charged to results of operations in the period in which the impairment is determined. The Corporation did not identify any impairment on its goodwill from its most recent testing, which was performed as of December 31, 2008. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested when such events occur. No such events occurred in 2008. Other acquired intangible assets with finite lives, such as customer lists, are required to be amortized over the estimated lives. These intangibles are generally amortized using the straight line method over estimated useful lives of ten years.

EXECUTIVE OVERVIEW

The primary source of the Corporation's revenues is net interest income derived from interest earned on loans and investments, less deposit and borrowing funding costs. Revenues are influenced by general economic factors, including market interest rates, the economy of the markets served, stock market conditions, as well as competitive forces within the markets.

The Corporation's overall strategy is to increase loan growth in local markets, while maintaining a reasonable funding base by offering competitive deposit products and services. The year 2008 ended in probably the most severe recession since World War II with credit markets and many financial institutions impaired. While remaining profitable and well capitalized, ACNB experienced expense increases from the need to bolster the allowance for loan losses and from in-market expansion. This resulted in decreased net income to $6,744,000, or $1.13 per share, in 2008, compared to $7,937,000, or $1.32 per share, in 2007 and $7,290,000, or $1.22 per share, in 2006. Returns on average equity were 7.96%, 9.83% and 9.72% in 2008, 2007 and 2006, respectively.

By eliminating investments funded by higher cost borrowings and actively managing funding costs, the Corporation's net interest margin increased on average to 3.37% in 2008 compared to 2.74% and 2.79% in 2007 and 2006, respectively. The net interest margin at year-end 2008, however, had decreased slightly due to assets continuing to reprice lower while some funding costs cannot decline further. Net interest income was $29,024,000 in 2008, as compared to $25,020,000 in 2007 and $24,839,000 in 2006.

Other income was $10,438,000, $10,364,000 and $9,912,000 in 2008, 2007 and 2006, respectively. The largest source of other income is commissions from insurance sales from Russell Insurance Group, Inc., which decreased by 5% in 2008 with the effects of a soft insurance market due to lower premiums and reduced commercial insurance volume due to economic contractions. In 2008, a $159,000 gain was recognized on investments compared to a gain of $42,000 in 2007 and a gain of $204,000 in 2006. Income from fiduciary activities totaled $1,021,000 for 2008, as compared to $906,000 for 2007 and $770,000 for 2006. Trust fiduciary income benefited from strong organic growth in average assets under administration. Service charges on deposit accounts increased 8% to $2,284,000, and revenue from ATM/debit card transactions increased 1% to $950,000 on higher volume and as a result of changing vendors.

Other expenses increased to $26,071,000, or by 4%, in 2008, as compared to $25,030,000 in 2007 and $24,666,000 in 2006. The largest component of other expenses is salaries and employee benefits, which increased 9% to $14,401,000 in 2008 compared to $13,251,000 in 2007, mainly as a result of annual merit increases and the addition of new commercial lending officers and management. Occupancy and equipment expenditures decreased 6% in 2008 compared to 2007 due to a reduction in outsourced processing and the lease of space in the Operations Center. Other expenditures in 2008 that were higher included increased loan collection, corporate governance, and electronic delivery expenses. Other expenses were lower in 2007 compared to 2006 in part due to lesser Sarbanes-Oxley Act compliance costs.

A more thorough discussion of the Corporation's results of operations is included in the following pages.

NEW ACCOUNTING PRONOUNCEMENTS

FSP 142-3

In April 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 142-3, "Determination of the Useful Life of Intangible Assets". This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The new pronouncement will not have a material impact on the Corporation's consolidated financial statements.

FSP FAS 132(R)-1

In December 2008, the FASB issued FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets". This FSP amends SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits", to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. The Corporation is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.

RESULTS OF OPERATIONS

Net Interest Income

The primary source of ACNB's traditional banking revenue is net interest income, which represents the difference between interest income on earning assets and interest expense on liabilities used to fund those assets. Earning assets include loans, securities, and federal funds sold. Interest bearing liabilities include deposits and borrowings.

Net interest income is affected by changes in interest rates, volume of interest bearing assets and liabilities, and the composition of those assets and liabilities. The "interest rate spread" and "net interest margin" are two common statistics related to changes in net interest income. The interest rate spread represents the difference between the yields earned on interest earning assets and the rates paid for interest bearing liabilities. The net interest margin is defined as the percentage of net interest income to average earning assets, which also considers the Corporation's net non-interest bearing funding sources, the largest of which are non-interest bearing demand deposits and stockholders' equity.

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The following table includes average balances, rates, interest income and expense, interest rate spread, and net interest margin:

Table 1 Average Balances, Rates and Interest Income and Expense

Dollars in thousands	2008 Average Balance	2008 Interest	2008 Yield/ Rate	2007 Average Balance	2007 Interest	2007 Yield/ Rate	2006 Average Balance	2006 Interest	2006 Yield/ Rate
INTEREST EARNING ASSETS									
Loans	**$ 594,678**	**$ 35,561**	**5.98%**	$ 543,256	$ 35,740	6.58%	$ 517,675	$ 33,281	6.43%
Taxable securities	**215,714**	**10,286**	**4.77%**	322,839	13,670	4.23%	338,543	13,260	3.92%
Tax-exempt securities	**47,814**	**1,790**	**3.74%**	33,779	1,348	3.99%	23,483	931	3.96%
Total Securities	**263,528**	**12,076**	**4.58%**	356,618	15,018	4.21%	362,026	14,191	3.92%
Other	**2,282**	**284**	**12.45%**	12,484	823	6.59%	11,536	815	7.06%
Total Interest Earning Assets	**860,488**	**47,921**	**5.57%**	912,358	51,581	5.65%	891,237	48,287	5.42%
Cash and due from banks	**15,088**			15,316			15,672		
Premises and equipment	**14,295**			14,340			14,832		
Other assets	**48,265**			43,823			42,368		
Allowance for loan losses	**(7,062)**			(5,513)			(4,917)		
Total Assets	**$ 931,074**			$ 980,324			$ 959,192		
LIABILITIES AND STOCKHOLDERS' EQUITY									
INTEREST BEARING LIABILITIES									
Interest bearing demand deposits	**$ 109,478**	**$ 242**	**0.22%**	$ 111,006	$ 600	0.54%	$ 112,908	$ 754	0.67%
Savings deposits	**197,019**	**2,238**	**1.14%**	202,774	3,840	1.89%	225,116	4,501	2.00%
Time deposits	**296,511**	**10,707**	**3.61%**	290,595	12,447	4.28%	256,890	9,682	3.77%
Total Interest Bearing Deposits	**603,008**	**13,187**	**2.19%**	604,375	16,887	2.79%	594,914	14,937	2.51%
Short-term borrowings	**44,401**	**714**	**1.61%**	78,139	3,216	4.12%	69,754	2,856	4.09%
Long-term borrowings	**109,559**	**4,996**	**4.56%**	128,173	6,458	5.04%	132,826	5,655	4.26%
Total Interest Bearing Liabilities	**756,968**	**18,897**	**2.50%**	810,687	26,561	3.28%	797,494	23,448	2.94%
Non-interest bearing demand deposits	**81,250**			76,570			76,570		
Other liabilities	**8,174**			12,344			10,137		
Stockholders' equity	**84,682**			80,723			74,991		
Total Liabilities and Stockholders' Equity	**$ 931,074**			$ 980,324			$ 959,192		
NET INTEREST INCOME		**$ 29,024**			$ 25,020			$ 24,839	
INTEREST RATE SPREAD			**3.07%**			2.37%			2.48%
NET INTEREST MARGIN			**3.37%**			2.74%			2.79%

For yield calculation purposes, nonaccruing loans are included in average loan balances. Yields on tax-exempt securities are not tax effected.

Table 1 presents balance sheet items on a daily average basis, net interest income, interest rate spread, and net interest margin for the years ending December 31, 2008, 2007 and 2006. Table 2 analyzes the relative impact on net interest income for changes in the volume of interest earning assets and interest bearing liabilities and changes in rates earned and paid by the Corporation on such assets and liabilities.

Net interest income totaled $29,024,000 in 2008, as compared to $25,020,000 in 2007 and $24,839,000 in 2006. During 2008, net interest income increased as a result of lower funding costs exceeding lower interest income due to market rate decreases. In addition, a negative-spread leverage position of investment securities funded by wholesale borrowings was eliminated. The increase in net

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interest income in 2007 was primarily related to a better mix of higher-earning loans and increased yields on earning assets.

The net interest margin during 2008 was 3.37% compared to 2.74% during 2007. The margin increased due to decreased funding costs from market rate declines and the public's acceptance of lower rates in exchange for secure deposits. The Federal Open Market Committee repeatedly decreased the federal funds rate from September 2007 to December 2008. These decreases allowed interest rate reductions on lower-cost transactional deposit products and higher-cost certificates of deposit at the same time that rates were decreasing on borrowed funds; the result was a 0.78% decrease in funding costs. Reducing the benefit of a lower cost of funds in 2008 was earning asset yield declines in the loan portfolio as new originations were generated at lower rates and existing adjustable rate loans reset at lower rates based on declines in index rates. Maintaining net interest margin going forward will be challenged by the fact that some deposit rates are nearing practical floors, while loans and investment securities may continue to decrease in yields. The cost and availability of wholesale funding could also be affected by a continuation in credit market turmoil. In 2007, lower-earning investment securities and residential mortgage maturities were replaced with higher-earning commercial loans. In addition, to avoid timing risk, a large block of expected fourth quarter investment calls were reinvested evenly through the year which improved the yield on securities. The result of this redeployment of earning assets and investment management increased earning asset yields by 0.23% in 2007. The net interest margin during 2007 was 2.74% compared to 2.79% during 2006. The margin decreased due to the higher cost on interest sensitive deposits and borrowings outpacing earning asset increases.

Average earning assets were $860,488,000 in 2008, a decrease of 5.7% from the balance of $912,358,000 in 2007 and $891,237,000 in 2006. Investment securities were the primary contributor to the 2008 decrease as maturities were used to payoff borrowings to improve net interest income. Average interest bearing liabilities were $756,968,000 in 2008, down from $810,687,000 in 2007 and $797,494,000 in 2006. On average, deposits were stable, while borrowings decreased by 25.4% from proceeds of the securities called in 2007 and 2008. The recent years' shift in mix to more time deposits and less lower-cost transaction and savings deposits reversed by year-end 2008. Local competition, however, kept time deposit rates relatively high.

The rate/volume analysis detailed in Table 2 shows that the increase in net interest income change in 2008 was due to funding cost rate decreases exceeding earning assets rate decreases. The decrease in interest income was 52% less than the decrease in interest expense. Interest expense decreased due to less borrowed fund volume and rate decreases in all interest bearing liability categories. Positive volume and rate changes in interest income in 2007 were mostly offset by increased rates on deposits and borrowings used to fund those assets in that year.

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The following table shows changes in net interest income attributed to changes in rates and changes in average balances of interest earning assets and interest bearing liabilities:

Table 2 Rate/Volume Analysis

	2008 versus 2007			2007 versus 2006		
	Due to Changes in			Due to Changes in		
In thousands	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
INTEREST EARNING ASSETS						
Loans	**$ 3,226**	**$ (3,405)**	**$ (179)**	$ 1,671	$ 788	$ 2,459
Taxable securities	**(4,951)**	**1,567**	**(3,384)**	(633)	1,043	410
Tax-exempt securities	**530**	**(88)**	**442**	411	6	417
Total Securities	**(4,421)**	**1,479**	**(2,942)**	(222)	1,049	827
Other	**(959)**	**420**	**(539)**	65	(57)	8
Total	**$ (2,154)**	**$ (1,506)**	**$ (3,660)**	$ 1,514	$ 1,780	$ 3,294

	2008 versus 2007			2007 versus 2006		
	Due to Changes in			Due to Changes in		
In thousands	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
INTEREST BEARING LIABILITIES						
Interest bearing demand deposits	**$ (8)**	**$ (350)**	**$ (358)**	$ (13)	$ (141)	$ (154)
Savings deposits	**(106)**	**(1,496)**	**(1,602)**	(431)	(230)	(661)
Time deposits	**249**	**(1,989)**	**(1,740)**	1,355	1,410	2,765
Short-term borrowings	**(1,038)**	**(1,464)**	**(2,502)**	346	14	360
Long-term borrowings	**(884)**	**(578)**	**(1,462)**	(204)	1,007	803
Total	**(1,787)**	**(5,877)**	**(7,664)**	1,053	2,060	3,113
Change in Net Interest Income	**$ (367)**	**$ 4,371**	**$ 4,004**	$ 461	$ (280)	$ 181

The net change attributable to the combination of rate and volume has been allocated on a consistent basis between volume and rate based on the absolute value of each. For yield calculation purposes, nonaccruing loans are included in average balances.

Provision for Loan Losses

The provision for loan losses charged against earnings was $5,570,000 in 2008, as compared to $500,000 in 2007 and $870,000 in 2006. ACNB adjusts the provision for loan losses periodically as necessary to maintain the allowance at a level deemed to meet the risk characteristics of the loan portfolio.

For additional discussion of the provision and the loans associated therewith, please refer to the "Asset Quality" section of this Management's Discussion and Analysis.

Other Income

Other income was $10,438,000 for the year-ended December 31, 2008, a $74,000, or 1%, increase from 2007. The largest source of other income is commissions from insurance sales from Russell Insurance Group, which decreased 5% to $4,077,000 on a soft commission market and loss of commercial customers due to the impact of the recession.

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In 2008, investment gains of $159,000 were recognized compared to a gain of $42,000 in 2007. The higher 2008 gains were on sales of securities likely to be called in order to provide loan funding. In 2006, investment gains included a gain as a result of a bank merger.

Income from fiduciary activities, which includes fees from both institutional and personal trust management services and estate settlement services, totaled $1,021,000 for the year-ended December 31, 2008, as compared to $906,000 for 2007 and $770,000 for 2006. At December 31, 2008, ACNB had total assets under administration of approximately $115,000,000, up 3% from $112,000,000 at the end of 2007 and $93,000,000 at the end of 2006. The increase in income was the result of higher average assets under management.

Service charges on deposit accounts increased 8% to $2,284,000 on better collection and rate increases. Revenue from ATM/debit card transactions increased 1% to $950,000 on higher volume. Income connected with selling mortgages decreased on lower volume, and deposit loss recoveries were lower than 2007 as less deposit losses were incurred in 2008.

Other income was $10,364,000 for the year-ended December 31, 2007, an increase of $452,000 compared to income of $9,912,000 during 2006. This increase was broad, over a variety of sources with deposit service charges and fiduciary income rising the most significantly during the period.

Other Expenses

Other expenses increased 4% to $26,071,000 for the year-ended December 31, 2008. The largest component of other expenses is salaries and employee benefits, which rose 9% to $14,401,000 compared to $13,251,000 in 2007. The reasons for the increase in salaries and employee benefits expenses include the following:

- an increase in full-time equivalent employees including five new seasoned commercial lenders;
- normal merit, promotion and production-based incentive compensation increases to employees; and,
- increased benefit plan costs.

Partially offsetting these increases was lower defined benefit plan cost due to investment gains in prior years. The plan's investment performance in 2008 was negatively impacted by severe declines in the broad financial markets, and the resulting decrease in plan fair values will significantly increase pension expense in the foreseeable future.

Salaries and employee benefits increased less than 3% from 2006 to 2007. During this time period, lower pension costs offset increased salaries expense from more full-time equivalent employees.

Net occupancy expense was $2,186,000 in 2008, $2,232,000 in 2007 and $2,206,000 in 2006. Equipment expense totaled $1,984,000 during 2008, as compared to $2,214,000 during 2007 and $2,475,000 during 2006. Occupancy and equipment expenses decreased in 2008 due to the leasing of space to a third party in the Operations Center and a renegotiated outsourcing arrangement for ATM and debit card processing. Equipment expenses, however, are subject to ever increasing technology demands and the need for systems reliability in a digital age. The majority of the decrease in 2007 from 2006 was due to lower data processing costs and less equipment leasing. Technology expenditures associated with overall growth and more sophisticated delivery channels are forecasted to increase expenses going forward.

Professional services expense totaled $944,000 for 2008, as compared to $824,000 for 2007 and $1,136,000 for 2006. Higher expenditures in 2008 included increased costs for SEC and other regulatory guidance (including that related to analysis of the Troubled Asset Relief Program), technology placement, loan review engagements, and professional fees related to problem loans. Lower Sarbanes-Oxley compliance costs and the use of less consulting services accounted for the decrease in 2007.

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Marketing expenses decreased 19% during 2008 due to higher expenditures in 2007 to mark the 150th anniversary of the banking subsidiary. In 2008, campaigns centered on brand awareness and product-specific promotional campaigns to demonstrate stability and independence, enhance market share, and take advantage of mergers impacting local competitors. The increase in 2007 from 2006 was primarily related to the promotion and celebration of the 150th anniversary.

Other operating expenses increased 4% in 2008 as a result of higher costs related to electronic delivery channels and corporate governance, as well as increased customer list amortization at the insurance subsidiary. Other operating expenses increased in 2007 from 2006 mainly as a result of higher telephone and loan collection costs.

In 2009, other operating expenses may be negatively impacted by higher assessments for FDIC insurance due to increased premiums for insuring customer deposits and a proposed special assessment on all banks to recapitalize the Deposit Insurance Fund.

Income Tax Expense

ACNB recognized income taxes of $1,077,000, or 13.8% of pretax income, during 2008, as compared to $1,917,000, or 19.5%, during 2007 and $1,925,000, or 20.9%, during 2006. The variances from the federal statutory rate are generally due to tax-exempt income and investments in low-income housing partnerships (which qualify for federal tax credits).

The decrease in the effective tax rate during 2008 compared to 2007 was a result of higher tax-exempt income in relationship to pretax income in 2008. The effective tax rates for 2007 and 2006 were due to varying amounts of tax-exempt income. Pretax income decreased in 2008 due to elements described above, particularly higher provision for loan losses expense.

At December 31, 2008, net deferred tax assets amounted to $2,638,000. Deferred tax assets are realizable primarily through future reversal of existing taxable temporary differences. Management currently anticipates future earnings will be adequate to utilize the net deferred tax assets.

FINANCIAL CONDITION

Average earning assets decreased in 2008 to $860,488,000, or by 5.7%, from $912,358,000 in 2007 and $891,237,000 in 2006. ACNB's investment portfolio decreased in 2008 and 2007 as a result of the planned objective to fund higher-earning loans and reduce average borrowings. Besides funds provided by investment pay-downs, growth in commercial and consumer loans was funded by increased customer deposits Average deposits increased in 2008 to $684,258,000 from $680,945,000 in 2007 and $671,484,000 in 2006. Average borrowings decreased in 2008 to $153,960,000 from $206,312,000 in 2007 and $202,580,000 in 2006.

Investment Securities

ACNB uses investment securities to generate interest and dividend income, manage interest rate risk, provide collateral for certain funding products, and provide liquidity. The contraction in the securities portfolio during 2008 and 2007 was designed to increase the level of lending in the earning asset mix for the fulfillment of the strategic direction to provide lending in the marketplace and to improve overall earning asset yields. The investment portfolio is comprised of U.S. Government agency, tax-free municipal, and corporate securities. These securities provide the appropriate characteristics with respect to credit quality, yield and maturity relative to the management of the overall balance sheet.

At December 31, 2008, the securities balance included a net unrealized gain on available for sale securities of $3,796,000, net of taxes, versus a net unrealized gain of $749,000, net of taxes, at December 31, 2007. In anticipation of securities to be called, a program was continued in 2008 to purchase new securities when yields were favorable and, subsequently, improvements in the yield curve

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positively impacted fair values. The increase in relevant yields during 2007 also led to the increase in the fair value of securities for 2007 compared to 2006. All individual securities in which the fair value is less than the book value are not considered other-than-temporarily impaired because the temporary impairment is caused by variations yields since purchase. All mortgage-backed security investments are pass through instruments issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), which guarantee the timely payment of principal on these investments. ACNB's prepurchase analysis of the borrowers in its FNMA and FHLMC loan pools reveal high credit scores, loans with conservative weighted average loan-to-value ratios, and loans for properties that are predominately owner-occupied. In addition, FNMA and FHLMC have been provided with strong support by the federal government, in effect guaranteeing this type of debt instrument. There is no exposure to subprime mortgages in the mortgage-backed securities.

The following tables set forth the composition of the securities portfolio and the securities maturity schedule, including weighted average yield, as of the end of the years indicated:

Table 3 Investment Securities

In thousands	2008	2007	2006
AVAILABLE FOR SALE SECURITIES AT FAIR VALUE			
U.S. Government and agencies	**$ 49,025**	$ 99,827	$ 156,810
Mortgage-backed securities	**158,002**	130,659	96,179
State and municipal	**41,975**	36,862	30,826
Corporate bonds	**2,655**	18,373	51,660
Stock in other banks	**879**	625	776
	252,536	286,346	336,251
HELD TO MATURITY SECURITIES AT AMORTIZED COST			
U.S. Government and agencies			10,000
Mortgage-backed securities		4,150	6,415
State and municipal			131
		4,150	16,546
TOTAL	**$ 252,536**	$ 290,496	$ 352,797

The Corporation owned two securities of non-investment grade at year-end 2006. They were 6.125% GMAC notes due on August 28, 2007, with a par value of $6,000,000, and 6.50% Ford Motor Credit notes due on January 25, 2007, with a par value of $6,200,000. Both paid as agreed at maturity.

Table 4 discloses investment securities at the scheduled maturity date. Many securities have call features that make them liable for redemption before the stated maturity date.

Table 4 Securities Maturity Schedule

	1 Year or Less		Over 1-5 Years		Over 5-10 Years		Over 10 Years or No Maturity		Total	
Dollars in thousands	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Government and agencies	$	%	$20,489	5.48%	$24,506	5.52%	$ 3,073	5.54%	$ 48,068	5.05%
Mortgage-backed securities			18,194	3.89	23,868	4.68	110,703	4.91	152,765	4.75
State and municipal			1,010	4.00	12,031	3.97	28,966	3.98	42,007	3.97
Corporate bonds			2,795	8.13					2,795	8.13
Stock in other banks							1,149		1,149	

$	%	$42,488	4.94%	$60,405	4.88%	$143,891	4.70%	$246,784	4.78%

Securities are at amortized cost. Mortgage-backed securities are allocated based upon scheduled maturities.

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Loans

Loans outstanding increased by $89,521,000, or 16.3%, in 2008, as compared to 4.6% growth experienced in 2007. The higher growth was a result of increased residential mortgage origination volume, enhanced efforts to attract new commercial customers, turmoil due to recent mergers in the local market, and the addition of several new lenders in 2008. The commercial loan segment decreased 4.7% during 2008, as lending shifted to loans with real estate collateral. Commercial real estate loans increased $46,461,000, or 36.5%, and real estate construction loans increased $10,588,000, or 27.6%. The commercial real estate loan growth in 2008 was the result of active involvement in the local market which experienced several bank mergers and the hiring of five additional seasoned commercial lenders during the year. Residential real estate and home equity lending increased by $31,457,000, or 10%, as a result of the contraction of other mortgage loan sources caused by the spreading financial marketplace crisis.

Table 5 Loan Portfolio

Loans at December 31 were as follows:

In thousands	2008	2007	2006	2005	2004
Commercial, financial and agricultural	**$ 59,861**	$ 62,844	$ 41,770	$ 36,583	$ 31,187
Real estate:					
Commercial	**173,926**	127,465	116,347	103,501	99,988
Construction	**48,958**	38,370	41,675	31,907	20,232
Residential	**341,916**	310,459	313,424	311,865	278,519
Installment	**13,062**	9,064	11,002	9,608	10,643
Total Loans	**$ 637,723**	$ 548,202	$ 524,218	$ 493,464	$ 440,569

The repricing range of the loan portfolio and the amounts of loans with predetermined and fixed rates are presented in the table below:

Table 6 Loan Sensitivities

In thousands	Less than 1 Year	1-5 Years	Over 5 Years	Total
LOANS MATURING				
Commercial, financial and agricultural	$ 629	$ 16,722	$ 42,510	$ 59,861
Real estate:				
Commercial	7,251	41,073	125,602	173,926
Construction	20,652	15,105	13,201	48,958
Total	$ 28,532	$ 72,900	$ 181,313	$ 282,745

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In thousands	Less than 1 Year	1-5 Years	Over 5 Years	Total
LOANS BY REPRICING OPPORTUNITY				
Commercial, financial and agricultural	$ 30,229	$ 15,063	$ 14,569	$ 59,861
Real estate:				
Commercial	37,239	113,087	23,600	173,926
Construction				