ACNB CORP
Form 10-K
March 16, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year-ended December 31, 2006

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 x

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 x

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 x 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. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer o   Accelerated filer x   Non-accelerated filer o

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

The aggregate market value of the voting stock held by nonaffiliates of the Registrant at June 30, 2006, was approximately $104,674,000.

The number of shares of the Registrant s Common Stock outstanding on March 1, 2007, was 5,706,970.

Documents Incorporated by Reference

Portions of the Registrant s 2007 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 I BUSINESS

ACNB CORPORATION

ACNB Corporation is a $965 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, accounting and insurance. ACNB s operations are conducted through its primary operating subsidiary, Adams County National Bank, with twenty-one offices in Adams, Cumberland and York Counties. The Corporation was formed in 1982, then became the holding company for Adams County National Bank in 1983.

On November 19, 2004, ACNB Corporation entered into a definitive agreement to purchase Russell Insurance Group, Inc. Under the terms of the definitive agreement, ACNB Corporation agreed to pay $4,750,000 in cash to acquire Russell Insurance Group, Inc. Additional consideration of up to $2,882,000 is subject to the achievement of performance criteria over the next three years. 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 addition, ACNB entered into a three-year employment contract with Frank C. Russell, Jr., President and Chief Executive Officer of Russell Insurance Group, Inc.

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.

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, 2006, Adams County National Bank had total assets of $949 million, total loans of $519 million, and total deposits of $670 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. Adams County National Bank s service delivery channels for its customers also include the ATM network, Customer Contact Center, 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, 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 loans, and personal lines of credit. Mortgage lending programs include personal residential mortgages, residential construction loans, and speculative construction 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, 2006, totaled $331,000.

Russell Insurance Group

On November 19, 2004, ACNB Corporation entered into a definitive agreement to acquire 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. This acquisition was finalized on January 5, 2005. Based in Westminster, Maryland, with a satellite office in Timonium, Maryland, Russell

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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.

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 the Bank 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 bank subsidiary of the financial holding company.

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 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 nonbank subsidiaries of financial holding companies.

GRAMM-LEACH-BLILEY ACT OF 1999 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.

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 4s;
- 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 unknown at this time due to pending final guidelines, but management is monitoring its developments.

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. Federal and state laws regulate the payment of dividends by ACNB s subsidiary. See 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.

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

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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 Under the Community Reinvestment Act of 1977, the Office of the Comptroller of the Currency (the OCC) 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, a merger, or an acquisition of bank shares. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 amended the CRA to require, among other things, that the OCC 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.

Capital Category	**Total Risk Based Ratio**	**Tier 1 Risk Based Ratio**	**Tier 1 Leverage Ratio**	**Under a Capital Order or Directive**
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.

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 has reached 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 to be 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 are 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
- Investment Portfolio
- Loan Maturity and Interest Rate Sensitivity

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- 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., Room 1580, Washington, DC, 20549, at prescribed rates. The public may obtain information on the operation of the Public Reference Room by calling the Commission at (202) 551-8090. 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 and Treasurer, 16 Lincoln Square, P.O. Box 3129, Gettysburg, PA 17325, or visit our website at http://www.acnb.com.

EMPLOYEES

As of December 31, 2006, ACNB had 260 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 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.

ACNB IS SUBJECT TO CREDIT RISK.

As of December 31, 2006, approximately 38% 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, savings institutions, credit unions, mortgage banking companies, and other lenders. Many of its competitors enjoy advantages, including greater financial resources and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as 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 originate and the interest rates they 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, more aggressive marketing campaigns, better brand recognition, and more convenient branch 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, results of operations and financial condition.

ACNB S ABILITY TO PAY DIVIDENDS DEPENDS PRIMARILY ON Dividends From ItS BANKING SUBSIDIARY, WHICH IS SUBJECT TO REGULATORY LIMITS.

ACNB is a bank 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.

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 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 or new products or services could have a material adverse effect on ACNB s business, results of operations and financial condition.

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 does not currently have employment agreements or non-competition agreements with any of its senior officers, except its President and Executive Vice President.

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.

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 results of operations and financial condition.

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.

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, 2006. All offices are located in Adams County with the exception of three offices located in Cumberland County and three offices located in York County. Offices at sixteen locations are owned, while five are leased. All real estate owned by the subsidiary bank is free and clear of encumbrances.

ITEM 3 LEGAL PROCEEDINGS

As of December 31, 2006, 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.

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 2006.

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. There were 20,000,000 shares of common stock authorized at December 31, 2006, and 5,706,970 shares outstanding. As of December 1, 2006, ACNB had approximately 2,698 stockholders of record. There is no other class of stock authorized or outstanding. ACNB is restricted as to the amount of dividends that it can pay to stockholders by virtue of the restrictions on the bank subsidiary s ability to pay dividends to ACNB. ACNB Corporation has no equity compensation plans.

There have been no unregistered sales of stock in 2006, 2005 or 2004.

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**
2006:			
First Quarter	**$ 20.24**	**$ 18.38**	**$ 0.20**
Second Quarter	**20.90**	**18.67**	**0.20**
Third Quarter	**20.00**	**18.19**	**0.20**
Fourth Quarter	**20.75**	**18.81**	**0.20**
2005:			
First Quarter	$ 24.76	$ 23.38	$ 0.20
Second Quarter	23.81	21.52	0.20
Third Quarter	22.86	20.95	0.20
Fourth Quarter	20.95	18.29	0.27

All amounts restated for the 5% common stock dividend distributed on December 15, 2006.

Total Return Performance

Index	Period Ending 12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
ACNB Corporation	100.00	120.98	157.57	158.23	126.56	138.75
NASDAQ Composite	100.00	68.76	103.67	113.16	115.57	127.58
Mid-Atlantic Custom Peer Group*	100.00	119.20	178.39	200.93	198.36	208.68

* Mid-Atlantic Custom Peer Group consists of Mid-Atlantic commercial banks with assets less than $1B.

ITEM 6 SELECTED FINANCIAL DATA

	Year-ended December 31, 2006	2005	2004	2003	2002
	(Dollars in thousands, except per share data)				
INCOME STATEMENT DATA					
Interest income	**$ 48,287**	$ 42,284	$ 37,752	$ 36,689	$ 37,794
Interest expense	**23,448**	17,370	13,183	13,945	13,453
Net interest income	**24,839**	24,914	24,569	22,744	24,341
Provision for loan losses	**870**	516	300	265	370
Net interest income after provision for loan losses	**23,969**	24,398	24,269	22,479	23,971
Proceeds recognized from life insurance proceeds				2,161	
Other income	**9,912**	8,885	5,865	7,268	5,028
Other expenses	**24,666**	24,497	18,571	17,998	16,988
Income before income taxes	**9,215**	8,786	11,563	13,910	12,011
Applicable income taxes	**1,925**	1,410	2,255	3,142	3,107
Net income	**$ 7,290**	$ 7,376	$ 9,308	$ 10,768	$ 8,904
BALANCE SHEET DATA (AT YEAR END)					
Assets	**$ 964,757**	$ 945,136	$ 924,188	$ 873,083	$ 734,644
Securities	**352,797**	367,878	405,943	388,252	309,655
Loans, net	**518,843**	489,008	436,631	411,051	368,469
Deposits	**669,705**	679,381	646,872	639,388	582,615
Borrowings	**205,503**	185,085	196,966	156,676	76,445
Stockholders equity	**77,304**	74,010	74,521	72,743	70,460
COMMON SHARE DATA*					
Earnings per share basic	**$ 1.28**	$ 1.29	$ 1.63	$ 1.89	$ 1.56
Cash dividends paid	**.80**	.87	.86	.85	1.03
Book value per share	**13.55**	12.94	13.06	12.74	12.34
Weighted average number of common shares	**5,706,970**	5,706,970	5,706,970	5,706,970	5,706,970
Dividend payout ratio	**62.63%**	67.07%	52.56%	44.93%	65.94%
PROFITABILITY RATIOS AND CONDITION					
Return on average assets	**0.76%**	0.79%	1.04%	1.32%	1.35%
Return on average equity	**9.72%**	10.03%	12.84%	15.41%	13.45%
Average stockholders equity to average assets	**7.82%**	7.92%	8.11%	8.55%	10.04%
SELECTED ASSET QUALITY RATIOS					
Non-performing loans to total loans	**0.79%**	1.40%	1.86%	1.21%	0.65%
Net charge-offs to average loans outstanding	**%**	%	0.08%	0.03%	0.07%
Allowance for loan losses to total loans	**1.03%**	0.90%	0.89%	0.96%	1.02%
Allowance for loan losses to non-performing loans	**130.42%**	64.36%	47.94%	79.26%	158.82%

* All amounts restated for the 5% common stock dividend distributed on December 15, 2006.

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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 2006 Annual Report 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, shou 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. 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 our 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 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. For additional information, see Footnote C in the Corporation s December 31, 2006, financial statements.

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 outstanding goodwill from its most recent testing, which was performed as of December 31, 2006. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested when such events occur. Other acquired intangible assets with infinite lives, such as core deposit intangibles, are required to be amortized over the estimated lives. Core deposit and other intangibles are generally amortized using the accelerated methods over estimated useful lives of ten to fifteen years.

EXECUTIVE OVERVIEW

The primary source of the Corporation s revenues is net interest income derived from 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.

Because of a flat to inverted yield curve and consumer demand for higher interest rates, the Corporation s net interest margin declined to 2.79% in 2006 compared to 2.89% and 2.92% in 2005 and 2004, respectively. The Federal Open Market Committee increased market rates seventeen times from June 2004 to June 2006. Accordingly, savers shifted deposits from lower-cost transactional products to higher-cost certificates of deposit and money market accounts at the same time that rates were increasing on these products; the result was a 69 basis point increase in funding costs. Mostly offsetting the higher cost of funds in 2006 was earning asset yield improvement through the strategic plan restructuring of earning assets. Lower-earning investment securities and residential mortgage maturities were replaced with higher-earning commercial lending. Net interest income was $24,839,000 in 2006, as compared to $24,914,000 in 2005 and $24,569,000 in 2004.

Other income was $9,912,000, $8,885,000 and $5,865,000 in 2006, 2005 and 2004, respectively. The largest source of other income is commissions from insurance sales from Russell Insurance Group, Inc., which increased by 4% in 2006 due to higher contingency commissions. In 2006, a $204,000 gain was recognized on an investment compared to a loss on sales of securities of $264,000 in 2005 and a gain of $1,113,000 in 2004. Income from fiduciary activities totaled $770,000 for 2006, as compared to $717,000 for 2005 and $714,000 for 2004. Service charges on deposit accounts increased 11% to $1,938,000 and revenue from ATM/debit card transactions increased 17% to $866,000 on higher volume and increased fee schedules in 2006.

Other expenses increased to $24,666,000, or by less than 1%, in 2006, as compared to $24,497,000 in 2005 and $18,571,000 in 2004. The largest component of other expenses is salaries and employee benefits, which increased less than 1% to $12,895,000 compared to $12,884,000 in 2005. Occupancy and equipment expenditures increased 12% in 2006 compared to 2005 due to the new operations center, additional retail banking offices, and technology expenditures associated with the growth and a changing, competitive marketplace. Other expenditures decreased by 5% in 2006 as the Corporation implemented cost efficiencies. Expenses increased 32% in 2005 compared to 2004 as a result of the costs associated with the Russell Insurance Group acquisition, the new operations center opened in May 2005, and ongoing compliance with the requirements of the Sarbanes-Oxley Act.

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 difficult interest rate environment resulted in net income of $7,290,000, or $1.28 per share, in 2006, compared to $7,376,000, or $1.29 per share, in 2005 and $9,308,000, or $1.63 per share, in 2004. Returns on average equity were 9.72%, 10.03% and 12.84% in 2006, 2005 and 2004, respectively.

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

NEW ACCOUNTING STANDARDS

FIN No. 48

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in tax positions. This interpretation requires that companies recognize in their financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Corporation does not believe the impact of adopting FIN No. 48 on its financial statements will be material.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements , which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Corporation is currently evaluating the potential impact, if any, of the adoption of SFAS No. 157 on its consolidated financial position, results of operations, and cash flows.

SFAS No. 158

On September 29, 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, which amends SFAS No. 87 and SFAS No. 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS No. 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS No. 87 and SFAS No. 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date the date at which the benefit obligation and plan assets are measured is required to be the company s fiscal year-end. SFAS No. 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. See Note L Retirement Plans for presentation of the effects of SFAS 158.

SFAS No. 159

On February 15, 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 . This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This option is available to all entities, including not-for-profit organizations. Most of the provisions in Statement 159 are elective; however, the amendment to FASB Statement No. 115, Accounting for Certain

Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. The FASB s stated objective in issuing this standard is as follows: to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. A not-for-profit organization will report unrealized gains and losses in its statement of activities or similar statement. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to the entire instruments and not to portions of instruments.

Statement 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided the entity makes that choice in the first 120 days of that fiscal year and elects to apply the provisions of FASB statement No. 157, Fair Value Measurements.

SAB No. 108

On September 13, 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108. SAB No. 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB No. 108, companies might evaluate the materiality of financial statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company s balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB No. 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Corporation has analyzed SAB No. 108 and determined that upon adoption it will have no impact on the reported results of operations or financial condition.

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.

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

Table 1 Average Balances, Rates and Interest Income and Expense

	2006 Average Balance	2006 Interest	2006 Yield/Rate	2005 Average Balance	2005 Interest	2005 Yield/Rate	2004 Average Balance	2004 Interest	2004 Yield/Rate
	Dollars in thousands								
ASSETS									
INTEREST EARNING ASSETS									
Loans	**$ 517,675**	**$ 33,281**	**6.43 %**	$ 464,338	$ 27,243	5.87 %	$ 424,299	$ 23,578	5.56 %
Taxable securities	**338,543**	**13,260**	**3.92 %**	365,204	13,729	3.76 %	384,563	13,155	3.42 %
Tax-exempt securities	**23,483**	**931**	**3.96 %**	23,179	916	3.95 %	23,283	917	3.94 %
Total Securities	**362,026**	**14,191**	**3.92 %**	388,383	14,645	3.77 %	407,846	14,072	3.45 %
Other	**11,536**	**815**	**7.06 %**	10,023	396	3.95 %	8,152	102	1.25 %
Total Interest Earning Assets	**891,237**	**48,287**	**5.42 %**	862,744	42,284	4.90 %	840,297	37,752	4.49 %
Cash and due from banks	**15,672**			17,476			21,772		
Premises and equipment	**14,832**			14,017			8,296		
Other assets	**42,368**			38,121			27,558		
Allowance for loan losses	**(4,917)**			(4,123)			(4,067)		
Total Assets	**$ 959,192**			$ 928,235			$ 893,856		
LIABILITIES AND STOCKHOLDERS EQUITY									
INTEREST BEARING LIABILITIES									
Interest bearing demand deposits	**$ 112,908**	**$ 754**	**0.67 %**	$ 116,933	$ 761	0.65 %	$ 110,293	$ 659	0.60 %
Savings deposits	**225,116**	**4,501**	**2.00 %**	235,317	3,349	1.42 %	241,192	2,544	1.05 %
Time deposits	**256,890**	**9,682**	**3.77 %**	239,075	7,418	3.10 %	230,117	6,308	2.74 %
Total Interest Bearing Deposits	**594,914**	**14,937**	**2.51 %**	591,325	11,528	1.95 %	581,602	9,511	1.64 %
Short-term borrowings	**69,754**	**2,856**	**4.09 %**	48,976	1,253	2.56 %	51,437	793	1.54 %
Long-term borrowings	**132,826**	**5,655**	**4.26 %**	130,501	4,589	3.52 %	108,507	2,879	2.65 %
Total Interest Bearing Liabilities	**797,494**	**23,448**	**2.94 %**	770,802	17,370	2.25 %	741,546	13,183	1.78 %
Non-interest bearing demand deposits	**76,570**			77,754			75,472		
Other liabilities	**10,137**			6,133			4,363		
Stockholders equity	**74,991**			73,546			72,475		
Total Liabilities and Stockholders Equity	**$ 959,192**			$ 928,235			$ 893,856		
NET INTEREST INCOME		**$ 24,839**			$ 24,914			$ 24,569	
INTEREST RATE SPREAD			**2.48 %**			2.65 %			2.71 %
NET INTEREST MARGIN			**2.79 %**			2.89 %			2.92 %

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, 2006, 2005 and 2004. Table 2 analyzes the relative impact on net interest income for changes in the volume of 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 $24,839,000 in 2006, compared to $24,914,000 in 2005 and $24,569,000 in 2004. During 2006, net interest income declined as a result of increased funding costs overtaking improvements in interest income due to increased volume, a better mix of higher earning loans, and increased yield on earning assets. The increase in net interest income in 2005 was primarily related to an increase in average earning assets.

The net interest margin during 2006 was 2.79% compared to 2.89% during 2005. The margin declined due to the cost of funding increasing from customer expectations for higher rates on deposits. The Federal

Open Market Committee increased market rates seventeen times from June 2004 to June 2006. These expectations caused savers to shift deposits from lower-cost transactional products to higher-cost certificates of deposit and money market accounts at the same time that rates were increasing on these products; the result was a 0.69% increase in funding costs. Mostly offsetting the higher cost of funds in 2006 was earning asset yield improvement through the strategic plan restructuring of earning assets. Lower-earning investment securities and residential mortgage maturities were replaced with higher-earning commercial lending. The advantage of this strategy was limited by a flat to inverted yield curve for most of 2006 that narrows the spread earned by financial institutions. The result of this redeployment of earning assets, combined with higher market rates increased earning asset yields by 0.52%.

The net interest margin during 2005 was 2.89% compared to 2.92% during 2004. The margin was flat due to the higher cost on interest sensitive deposits and borrowings and a flat yield curve. The prime rate and fed funds rate increased steadily throughout 2005, but long-term rates moved up very little during the same period. The yield on interest earning assets and cost of interest bearing liabilities rose by 0.41% and 0.47%, respectively, during 2005.

Average earning assets were $891,237,000 in 2006, an increase of 3.3% over the 2005 balance of $862,744,000. Loan growth was the primary contributor to the increase in average earning assets during this period, with securities decreasing. Average interest bearing liabilities were $797,494,000 in 2006, up from $770,802,000 in 2005 and $741,546,000 in 2004. Loan and securities growth was partially funded by an increase in interest bearing liabilities with a continued shift in mix to time deposits and borrowed money from lower-cost demand and savings deposits.

The rate/volume analysis detailed in Table 2 shows that the significant increase in interest income change in 2006 was divided between improvement in loan yield and higher loan volume. The increase in interest income was offset by a slightly larger increase in interest expense that was predominantly caused by increased rates as explained above. Positive volume and rate changes in net interest income in 2005 offset the increasing cost of funding those assets in that year.

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

	2006 versus 2005 Due to Changes in			**2005 versus 2004 Due to Changes in**		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
	In thousands					
INTEREST EARNING ASSETS						
Loans	**$ 3,293**	**$ 2,745**	**$ 6,038**	$ 2,303	$ 1,362	$ 3,665
Taxable securities	**(1,029)**	**560**	**(469)**	(684)	1,258	574
Tax-exempt securities	**12**	**3**	**15**	(4)	3	(1)
Total Securities	**(1,017)**	**563**	**(454)**	(688)	1,261	573
Other	**67**	**352**	**419**	28	266	294
Total	**2,343**	**3,660**	**6,003**	1,643	2,889	4,532

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	2006 versus 2005 Due to Changes in Volume	Rate	Total	2005 versus 2004 Due to Changes in Volume	Rate	Total
	In thousands					
INTEREST BEARING LIABILITIES						
Interest bearing demand deposits	**$ (27)**	**$ 20**	**$ (7)**	$ 41	$ 61	$ 102
Savings deposits	**(151)**	**1,303**	**1,152**	(63)	868	805
Time deposits	**583**	**1,681**	**2,264**	253	857	1,110
Short-term borrowings	**664**	**939**	**1,603**	(40)	500	460
Long-term borrowings	**83**	**983**	**1,066**	656	1,054	1,710
Total	**1,152**	**4,926**	**6,078**	847	3,340	4,187
Change in Net Interest Income	**$ 1,191**	**$ (1,266)**	**$ (75)**	$ 796	$ (451)	$ 345

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 $870,000 in 2006, compared to $516,000 in 2005 and $300,000 in 2004. 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.

See further information in the Asset Quality section of this Management s Discussion and Analysis.

Other Income

Other income was $9,912,000 for the year-ended December 31, 2006, a $1,027,000 or 12%, increase from 2005. The largest source of other income is commissions from insurance sales from Russell Insurance Group, which increased 4% to $4,245,000 on higher contingency fees. Otherwise, insurance commission revenue was down due to softening in the commercial property/casualty markets.

In 2006, a $204,000 gain was recognized on an investment in a banking company that was purchased by another banking company. In 2005, a loss of $264,000 was recognized on sales of securities, resulting in an increase of $468,000 between the two years.

Income from fiduciary activities, which includes fees from both institutional and personal trust management services and estate settlement services, totaled $770,000 for the year-ended December 31, 2006, as compared to $717,000 for 2005 and $714,000 for 2004. At December 31, 2006, ACNB had total assets under administration of approximately $93,000,000, up 22% compared to $76,000,000 at the end of 2005 and $74,000,000 at the end of 2004. The increase in income was the result of an increase in assets under management and estate settlement fees.

Service charges on deposit accounts increased 11% to $1,938,000 on rate increases and new fee sources. Revenue from ATM/debit card transactions increased 17% to $866,000 on higher volume.

Other income was $8,885,000 for the year-ended December 31, 2005, an increase of $3,020,000 as compared to income of $5,865,000 during 2004. The major factor in the increase for 2005, as compared to 2004, was the acquisition of Russell Insurance Group in January 2005. Decreasing other income in 2005 was the loss on the sale of securities compared with a gain on securities sales in 2004.

Other Expenses

Other expenses increased less than 1% to $24,666,000 for the year-ended December 31, 2006. The largest component of other expenses is salaries and employee benefits, which increased less than 1% to $12,895,000 compared to $12,884,000 in 2005. The reasons for the stability in salaries and employee benefits expenses include the following:

- limited increase in full-time equivalent employees;
- normal merit increases to employee;,
- a leveling-off of medical insurance costs after several years of increases; and,
- lower pension costs due to a higher return on plan assets.

Salaries and employee benefits increased $3,000,000, or 30%, from 2004 to 2005. The Russell Insurance Group acquisition, as well as increased benefits cost, contributed to the increase in that year.

Net occupancy expense was $2,206,000 in 2006, $1,772,000 in 2005, and $1,191,000 in 2004. Furniture and equipment expense totaled $2,475,000 during 2006, as compared to $2,395,000 during 2005 and $2,131,000 during 2004. The majority of the increase in 2006 and 2005 was due to the opening of a new operations center in mid-year 2005. The increases were also the result of three additional retail banking offices opened since the end of 2004, as well as technology expenditures associated with overall growth, more sophisticated delivery channels offered to the Bank s customers, and increasing regulations.

Professional services expense totaled $1,136,000 during 2006, as compared to $1,147,000 during 2005 and $730,000 for 2004. During 2006, Sarbanes-Oxley direct compliance costs increased over 2005. Telephone technology consulting and Sarbanes-Oxley compliance costs were the cause of higher professional services expense in 2005 compared to 2004.

Advertising expenses decreased during 2006 due to higher levels of product-specific promotional campaigns in 2005. The increase from 2005 over 2004 was primarily related to the retention of an advertising agency and the increased promotion of specific products.

Other operating expenses decreased in 2006 as a result of savings recognized from improved telephone technology, lower loan collection costs, and decreased discretionary spending. The increase from 2004 to 2005 was mainly a result of Russell Insurance Group expenses starting in 2005.

Income Tax Expense

ACNB recognized income taxes of $1,925,000, or 20.9% of pretax income, during 2006, as compared to $1,410,000, or 16.0%, during 2005 and $2,255,000, or 19.5%, during 2004. 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 increase in the effective tax rate during 2006 was a result of higher pretax income in relationship to stable tax-exempt income and tax credits. The effective tax rate for 2004 was also higher due to higher pre-tax income.

At December 31, 2006, net deferred tax assets amounted to $4,057,000. 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 increased in 2006 to $891,237,000, or 3.3%, from $862,744,000 in 2005 and $840,297,000 in 2004. ACNB s investment portfolio decreased in 2006 and 2005, as a result of the strategic

plan objective to fund higher-earning loans. Besides funds provided by investment pay-downs, growth in commercial and consumer loans was funded by increased customer deposits and wholesale borrowings. Average deposits and borrowings increased in 2006 to $797,494,000, from $770,802,000 in 2005 and $741,546,000 in 2004.

Investment Securities

ACNB uses investment securities to generate interest and dividend income, to manage interest rate risk, to provide collateral for certain funding products, and to provide liquidity. The contraction in the securities portfolio during 2006 and 2005 was designed to increase the earning asset mix of commercial lending to fulfill the strategic direction of the Bank 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 yield and maturity relative to the management of the overall balance sheet.

At December 31, 2006, the securities balance included a net unrealized loss on available for sale securities of $3,437,000, net of taxes, versus a net unrealized loss of $4,725,000, net of taxes, at December 31, 2005. Improvements in the rate curve that effect the portfolio and shorter average maturities in the portfolio caused the increase in value in 2006. The increase in relevant interest rates during 2005 led to the depreciation in the fair value of securities during 2005. All securities are not considered other-than-temporarily impaired because the temporary impairment is caused by a general increase in interest rates since purchase.

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

Table 3 Investment Securities

	2006 **In thousands**	**2005**	**2004**
AVAILABLE FOR SALE SECURITIES AT FAIR VALUE			
U.S. Government and agencies	**$ 156,810**	$ 156,350	$ 157,810
Mortgage-backed securities	**96,179**	117,802	118,000
State and municipal	**30,826**	22,860	22,928
Corporate bonds	**51,660**	50,978	82,071
Stock in other banks	**776**	723	574
	336,251	348,713	381,383
HELD TO MATURITY SECURITIES AT AMORTIZED COST			
U.S. Government and agencies	**10,000**	10,000	10,000
Mortgage-backed securities	**6,415**	8,916	14,206
State and municipal	**131**	249	354
	16,546	19,165	24,560
TOTAL	**$ 352,797**	$ 367,878	$ 405,943

The Corporation owned two securities of non-investment grade at year-end 2006 and 2005. They were 6.125% GMAC notes due on August 28, 2007, with a par value of $6,000,000 and a current price at year-end 2006 of 100.04, versus a cost basis of 101.1, and 6.50% Ford Motor Credit notes due on January 25, 2007, with a par value of $6,200,000 and a current price at year-end 2006 of 99.9. Ford Motor Credit paid at maturity subsequent to year-end 2006. Management intends to hold GMAC to maturity at which time its amortized cost will equal par value, which is expected to be paid.

Table 4 discloses investment securities at scheduled maturity date. Many securities have call features that make them liable for redemption before the stated maturity date. At December 31, 2006, approximately $78,912,000 in U.S. Government agency step-up securities were expected to be redeemed at par in 2007. The average coupon rate on these securities is 4.04%.

Table 4 Securities Maturity Schedule

	1 Year or Less		Over 1-5 Years		Over 5-10 Years		Over 10 Years or No Maturity		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	Dollars in thousands									
U.S. Government and agencies	$ 55,000	3.63 %	$	%	$ 113,913	4.03 %	$	%	$ 168,913	3.90 %
Mortgage-backed securities	4,148	3.69	51,273	3.30			49,977	4.75	105,398	4.00
State and municipal	131	4.00			22,857	3.96	7,703	4.02	30,691	3.97
Corporate bonds	33,874	3.81	18,426	3.77					52,300	3.79
Stock in other banks							704		704	
	$ 93,153	3.70 %	$ 69,699	3.42 %	$ 136,770	4.02 %	$ 58,384	4.60 %	$ 358,006	3.91 %

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

Loans

Loans outstanding increased by $30,754,000, or 6.2%, in 2006, compared to 12.0% growth experienced in 2005. The growth in loans is consistent with the Corporation s strategic plan, a stable local economy, and lending to support existing customers. The commercial loan portfolio experienced planned growth during 2006, increasing by approximately $5,187,000, or 14%, in commercial loans, $12,846,000, or 12%, in commercial real estate loans, and $9,768,000, or 31%, in construction loans. The commercial loan growth in 2006 was the result of actively marketing to local businesses and participation with other financial institutions on larger loans in the region.

Table 5 Loan Portfolio

Loans at December 31 were as follows:

	2006	2005	2004	2003	2002
	In thousands				
Commercial, financial and agricultural	**$ 41,770**	$ 36,583	$ 31,187	$ 18,080	$ 21,128
Real estate:					
Commercial	**116,347**	103,501	99,988	100,536	90,967
Construction	**41,675**	31,907	20,232	22,298	16,096
Residential	**313,424**	311,865	278,519	262,893	232,669
Installment	**11,002**	9,608	10,643	11,222	11,446
Total Loans	**$ 524,218**	$ 493,464	$ 440,569	$ 415,029	$ 372,306

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

Loans Maturing	Less than 1 Year In thousands	1-5 Years	Over 5 Years	Total
Commercial, financial and agricultural	$ 14,895	$ 17,464	$ 9,411	$ 41,770
Real estate:				
Commercial	5,281	49,213	61,853	116,347
Construction	7,321	23,941	10,413	41,675
Total	$ 27,497	$ 90,618	$ 81,677	$ 199,792

Loans by Repricing Opportunity	Less than 1 Year In thousands	1-5 Years	Over 5 Years	Total
Commercial, financial and agricultural	$ 19,828	$ 18,881	$ 3,061	$ 41,770
Real estate:				
Commercial	33,406	72,544	10,397	116,347
Construction	22,897	12,453	6,325	41,675
Total	$ 76,131	$ 103,878	$ 19,783	$ 199,792
Loans with a fixed interest rate	$ 896	$ 18,129	$ 12,432	$ 31,457
Loans with a variable interest rate	75,235	85,749	7,351	168,335
Total	$ 76,131	$ 103,878	$ 19,783	$ 199,792

Most of the Corporation s activities are with customers located within the southcentral Pennsylvania and northern Maryland region of the country. The Corporation does not have any significant concentrations greater than 10% of loans to any one industry or customer.

ASSET QUALITY

The ACNB loan portfolio is subject to varying degrees of credit risk. Credit risk is mitigated through prudent underwriting standards, ongoing credit review, and monitoring and reporting asset quality measures. Additionally, loan portfolio diversification, limiting exposure to a single industry or borrower, and requiring collateral also reduces ACNB s credit risk.

ACNB s commercial, consumer and residential mortgage loans are principally to borrowers in southcentral Pennsylvania and northern Maryland. As the majority of ACNB s loans are located in this area, a substantial portion of the debtor s ability to honor the obligation may be affected by the level of economic activity in the market area.

The unemployment rate in ACNB s market area remained below the national average during 2006. Additionally, reasonably low interest rates, a stable local economy, and minimal inflation continued to support favorable economic conditions in the area.

Non-performing assets include nonaccrual and restructured loans, accruing loans past due 90 days or more, and other foreclosed assets. ACNB s general policy has been to cease accruing interest on loans when management determines that a reasonable doubt exists as to the collectibility of additional interest. When management places a loan on nonaccrual status, it reverses unpaid interest credited to income in the current year. ACNB recognizes income on these loans only to the extent that it receives cash payments. ACNB occasionally returns nonaccrual loans to performing status when the borrower brings the loan current and performs in accordance with contractual terms for a reasonable period of time. ACNB

categorizes a loan as restructured if it changes the terms of the loan, such as interest rate, repayment schedule or both, to terms that it otherwise would not have granted originally.

The following table sets forth the Corporation s non-performing assets as of the dates indicated:

Table 7 Non-Performing Assets

	2006		2005		2004		2003		2002	
	Dollars in thousands									
Nonaccrual loans	**$ 3,900**		$ 7,354		$ 8,054		$ 4,413		$ 1,037	
Accruing loans 90 days past due	**220**		199		160		606		1,379	
Total Non-Performing Loans	**4,120**		7,553		8,214		5,019		2,416	
Foreclosed real estate					213		394		559	
Total Non-Performing Assets	**$ 4,120**		$ 7,553		$ 8,427		$ 5,413		$ 2,975	
Ratios:										
Non-performing loans to total loans	**0.79**	**%**	1.40	%	1.86	%	1.21	%	0.65	%
Non-performing assets to total assets	**0.43**	**%**	0.73	%	0.91	%	0.62	%	0.40	%
Allowance for loan losses to non-performing loans	**130.46**	**%**	64.36	%	47.94	%	79.26	%	158.82	%

If interest due on all nonaccrual loans had been accrued at original contract rates, it is estimated that income before income taxes would have been greater by $137,000 in 2006, $501,000 in 2005, and $384,000 in 2004.

Impaired loans at December 31, 2006 and 2005, totaled $6,982,000 and $3,419,000, respectively. The related allowance for loan losses totaled $1,899,000 and $698,000, respectively.

Potential problem loans are defined as performing loans that have characteristics that cause management to have doubts as to the ability of the borrower to perform under present loan repayment terms and which may result in the reporting of these loans as non-performing loans in the future. Total potential problem loans approximated $10 million at December 31, 2006. The majority of these loans are secured by real estate with acceptable loan-to-value ratios.

Allowance for Loan Losses

ACNB maintains the allowance for loan losses at a level believed adequate by management to absorb potential losses in the loan portfolio and is established through a provision for loan losses charged to earnings. On a quarterly basis, the Corporation utilizes a defined methodology in determining the adequacy of the allowance for loan losses, which considers specific credit reviews, past loan loss, historical experience, and qualitative factors. This methodology results in an allowance that is considered appropriate in light of the high degree of judgment required and is prudent and conservative, but not excessive.

Management assigns internal risk ratings for each significant commercial lending relationship. Utilizing historical loss experience, adjusted for changes in trends, conditions and other relevant factors, management derives estimated losses for non-rated and non-classified loans. When management finds loans with uncertain collectibility of principal and interest, it places those loans on a watch list and evaluates a specific reserve on a quarterly basis in order to estimate potential losses. Management s analysis considers:

- adverse situations that may affect the borrower s ability to repay;
- estimated value of underlying collateral; and,

- prevailing market conditions.

If management determines that a specific reserve allocation is not required, it assigns the general loss factor to determine the reserve. For homogeneous loan types, such as consumer and residential mortgage loans, management bases specific allocations on the average loss ratio for the previous five years for each specific loan pool. Additionally, management adjusts projected loss ratios for other factors, including the following:

- trends in delinquency levels;
- trends in non-performing and potential problem loans;
- trends in composition, volume and terms of loans;
- effects of changes in lending policies or underwriting procedures;
- experience, ability and depth of management;
- national and local economic conditions;
- concentrations in lending activities; and,
- other factors that management may deem appropriate.

Management determines the unallocated portion of the allowance for loan losses based on the following criteria:

- risk of error in the specific and general reserve allocations;
- the perceived level of consumer and small business loans with demonstrated weaknesses where it is not practicable to develop specific allocations;
- other potential exposure in the loan portfolio;
- variances in management s assessment of national and local economic conditions; and,
- other internal or external factors that management believes appropriate at that time.

Management believes the above methodology accurately reflects losses inherent in the portfolio. Management charges actual loan losses to the allowance for loan losses. Management periodically updates the methodology and the assumptions discussed above.

Management bases the provision for loan losses, or lack of provision, on the overall analysis taking into account the methodology discussed above.

The following tables set forth information on the analysis of the allowance for loan losses and the allocation of the allowance for loan losses as of the dates indicated:

Table 8 Analysis of Allowance for Loan Losses

	Year-ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	Dollars in thousands				
Beginning balance	**$ 4,456**	$ 3,938	$ 3,978	$ 3,837	$ 3,723
Provision for loan losses	**870**	516	300	265	370
Loans charged-off:					
Commercial, financial and agricultural	**26**	41	316	90	87
Real estate		4	31	32	192
Consumer	**11**	42	43	47	57
Total Loans Charged-Off	**37**	87	390	169	336
Recoveries:					
Commercial, financial and agricultural	**46**	22	8	6	27
Real estate		54		7	22
Consumer	**40**	13	42	32	31
Total Recoveries	**86**	89	50	45	80
Net charge-offs (recoveries)	**(49)**	(2)	340	124	256
Ending balance	**$ 5,375**	$ 4,456	$ 3,938	$ 3,978	$ 3,837
Ratios:					
Net charge-offs to average loans	**%**	%	0.08 %	0.03 %	0.07 %
Allowance for loan losses to total loans	**1.03 %**	0.90 %	0.89 %	0.96 %	1.02 %

Table 9 Allocation of the Allowance for Loan Losses

	2006		**2005**		**2004**		**2003**		**2002**	
	Amount	**Percent of Loan Type to Total Loans**	**Amount**	**Percent of Loan Type to Total Loans**	**Amount**	**Percent of Loan Type to Total Loans**	**Amount**	**Percent of Loan Type to Total Loans**	**Amount**	**Percent of Loan Type to Total Loans**
	Dollars in thousands									
Commercial, financial and agricultural	**$ 457**	**8.0 %**	$ 539	7.4 %	$ 941	7.1 %	$ 875	4.4 %	$ 930	5.6 %
Real estate:										
Commercial	**1,275**	**22.2**	1,760	21.0	1,288	22.7	1,388	24.2	1,394	24.3
Construction	**2,323**	**7.9**	735	6.5	248	4.6	308	5.4	258	4.3
Residential	**583**	**59.8**	592	63.2	674	63.2	684	63.3	467	62.7
Consumer	**228**	**2.1**	369	1.9	420	2.4	504	2.7	375	3.1
Unallocated	**509**	**N/A**	461	N/A	367	N/A	219	N/A	413	N/A
Total	**$ 5,375**	**100.00 %**	$ 4,456	100.00 %	$ 3,938	100.00 %	$ 3,978	100.00 %	$ 3,837	100.00 %

The allocation of the allowance for loan losses between the various loan categories has changed over the past few years, consistent with the estimated specific losses measured at each period-end and the historical net loss experience in each of the categories. The unallocated portion of the allowance reflects estimated inherent losses within the portfolio that have not been detected. The unallocated portion of the reserve exists due to risk of error in the specific and general reserve allocations, as well as to allow for consumer and small business loans with demonstrated weaknesses where it is not practicable to develop specific allocations, variances in management s assessment of national and local economic conditions, and other internal and external factors that management believes appropriate at the time. The unallocated

portion of the reserve has increased due to variances in management s assessment of national and local economic conditions as may be affected by the current political environment and other external factors.

While management believes ACNB s allowance for loan losses is adequate based on information currently available, future adjustments to the reserve may be necessary due to changes in economic conditions and management s assumptions as to future delinquencies or loss rates.

Deposits

ACNB relies on deposits as the primary source of funds for lending activities. Average deposits increased 0.6%, or $3,589,000, during 2006, compared to 1.8% during 2005. ACNB s deposit pricing function priced deposits to be competitive with relevant local competition; however, 2006 exhibited a marked increase in consumer demands for higher rates and a wider group of financial institutions, including credit unions and larger regional banks, marketing promotional products to meet the demands of rate-conscious savers. The 2006 growth was centered in premium-rate certificates of deposits sold in the three-county marketplace. Other deposit products such as money market savings and interest-bearing transaction accounts suffered declines as customers became attuned to higher rates by the actions of the Federal Reserve in raising short-term rates over the last two years. ACNB s ability to maintain and add to its deposit base may be impacted by additional competitive pressures from the stock market and more competing financial institutions in upcoming periods.

Table 10 Time Deposits

Maturities of time deposits of $100,000 or more outstanding at December 31, 2006, are summarized as follows:

	In thousands
Three months or less	$ 13,319
Over three through six months	7,231
Over six through twelve months	18,786
Over twelve months	18,960
Total	$ 58,296

Borrowings

Short-term borrowings are comprised primarily of securities sold under agreements to repurchase and overnight borrowings at the Federal Home Loan Bank of Pittsburgh (FHLB). As of December 31, 2006, short-term borrowings were $59,983,000, an increase of $676,000, or 1.1%, from the December 31, 2005, balance of $59,307,000.

	2006 In thousands	2005	2004
Amounts outstanding at end of year:			
FHLB overnight advance	**$ 39,614**	$ 34,965	$ 30,706
Securities sold under repurchase agreements	**19,919**	23,892	33,810
Treasury tax and loan note	**450**	450	450
Total	**$ 59,983**	$ 59,307	$ 64,966

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	2006		2005		2004	
	Dollars in thousands					
Average interest rate at year-end	**4.32**	**%**	3.38	%	1.84	%
Maximum amount outstanding at any month-end	**$ 97,896**		$ 70,793		$ 79,589	
Average amount outstanding	**$ 69,754**		$ 48,976		$ 51,437	
Weighted average interest rate	**4.09**	**%**	2.56	%	1.54	%

Long-term debt consists of advances from the Federal Home Loan Bank to fund ACNB s growth in its earning asset portfolio and a loan from a commercial bank to fund the purchase of Russell Insurance Group. Long-term debt totaled $145,520,000 at December 31, 2006, versus $125,778,000 at December 31, 2005.

Capital

The management of capital in a regulated financial services industry must properly balance return on equity to stockholders while maintaining sufficient capital levels and related risk-based capital ratios to satisfy regulatory requirements. Capital management must also consider growth opportunities that may exist, and the resulting need for additional capital. ACNB s capital management strategies have been developed to provide attractive rates of returns to stockholders, while maintaining its well-capitalized position.

The primary source of additional capital to ACNB is earnings retention, which represents net income less dividends declared. During 2006, ACNB retained $2,707,000, or 37%, of its net income, as compared to $2,429,000, or 33%, in 2005 and $4,416,000, or 47%, during 2004.

ACNB is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on ACNB. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, ACNB must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and reclassifications are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy requires ACNB to maintain minimum amounts and ratios of total and Tier 1 capital to average assets. Management believes, as of December 31, 2006 and 2005, that ACNB s banking subsidiary met all minimum capital adequacy requirements to which they are subject and are categorized as well-capitalized. There are no conditions or events since the notification that management believes have changed the subsidiary bank s category.

Table 11 Risked-Based Capital

ACNB s capital ratios are as follows:

	2006	2005
Tier 1 leverage ratio (to average assets)	**7.74** %	7.81 %
Tier 1 risk-based capital ratio (to risk-weighted assets)	**12.65** %	13.14 %
Total risk-based capital ratio	**13.58** %	13.94 %

Liquidity

Effective liquidity management ensures the cash flow requirements of depositors and borrowers, as well as the operating cash needs of ACNB, are met.

ACNB s funds are available from a variety of sources, including assets that are readily convertible such as cash and federal funds sold, maturities and repayments from the securities portfolio, scheduled repayments of loans receivable, the core deposit base, and the ability to borrow from the FHLB. At December 31, 2006, ACNB could borrow approximately $478,539,000 from the FHLB of which $298,925,000 was available.

Another source of liquidity is securities sold under repurchase agreement to customers of ACNB s banking subsidiary totaling $19,919,000 and $23,892,000 at December 31, 2006 and 2005, respectively.

The liquidity of the parent company also represents an important aspect of liquidity management. The parent company s cash outflows consist principally of dividends to stockholders and corporate expenses. The main source of funding for the parent company is the dividends it receives from its banking subsidiary. Federal and state banking regulations place certain restrictions on dividends paid to the parent company from the subsidiary banks. The total amount of dividends that may be paid from the subsidiary bank to ACNB was $5,132,000 at December 31, 2006. For a discussion of ACNB s dividend restrictions, see Item 1 Business.

ACNB manages liquidity by monitoring projected cash inflows and outflows on a daily basis, and believes it has sufficient funding sources to maintain sufficient liquidity under varying degrees of business conditions. The Corporation s operating cash flows totaled $15,175,000 during 2006, as compared to $11,392,000 during 2005 and $11,034,000 during 2004. The primary sources of cash flows are payments received for interest and dividends, partially offset by payments for interest on deposits and borrowings and payments for other expenses. See the cash flows statement for additional information.

Aggregate Contractual Obligations

The following table represents the Corporation s on and off-balance sheet aggregate contractual obligations to make future payments as of December 31, 2006:

	Less than 1 Year	1 - 3 Years	4 - 5 Years	Over 5 Years	Total
	In thousands				
Time deposits	$ 186,576	$ 64,017	$ 22,178	$	$ 272,771
Long-term debt	70,280	50,617	704	23,919	145,520
Operating leases	418	570	368	578	1,934
Payments under benefit plans	86	172	219	3,711	4,188
Total	$ 257,360	$ 115,376	$ 23,469	$ 28,207	$ 424,412

In addition, the Corporation in the conduct of business operations routinely enters into contracts for services and equipment. These contracts may require payment to be provided in the future and may also

contain penalty clauses for the early termination of the contracts. Major expenditures are controlled by various approval authorities.

Management is not aware of any other commitments or contingent liabilities which may have a material adverse impact on the liquidity or capital resources of the Corporation.

Off-Balance Sheet Arrangements

The Corporation is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and, to a lesser extent, standby letters of credit. At December 31, 2006, the Corporation had unfunded outstanding commitments to extend credit of $134,000,000 and outstanding standby letters of credit of $3,965,000. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. Refer to Note N of the consolidated financial statements for a discussion of the nature, business purpose, and importance of the Corporation s off-balance sheet arrangements.

Financial institutions can be exposed to several market risks that may impact the value or future earnings capacity of an organization. These risks involve interest rate risk, foreign currency exchange risk, commodity price risk, and equity market price risk. ACNB s primary market risk is interest rate risk. Interest rate risk is inherent because, as a financial institution, ACNB derives a significant amount of its operating revenue from purchasing funds (customer deposits and wholesale borrowings) at various terms and rates. These funds are then invested into earning assets (loans, leases, investments, etc.) at various terms and rates. This risk is further discussed below.

ACNB does not have any exposure to foreign currency exchange risk, commodity price risk, or equity market risk.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Interest rate risk is the exposure to fluctuations in the Corporation s future earnings (earnings at risk) and value (value at risk) resulting from changes in interest rates. This exposure results from differences between the amounts of interest earning assets and interest bearing liabilities that reprice within a specified time period as a result of scheduled maturities and repayment and contractual interest rate changes.

The primary objective of the Corporation s asset/liability management process is to maximize current and future net interest income within acceptable levels of interest rate risk while satisfying liquidity and capital requirements. Management recognizes that a certain amount of interest rate risk is inherent, appropriate and necessary to ensure the Corporation s profitability. Thus, the goal of interest rate risk management is to maintain a balance between risk and reward such that net interest income is maximized while risk is maintained at a tolerable level.

Management endeavors to control the exposure to changes in interest rates by understanding, reviewing and making decisions based on its risk position. The bank subsidiary asset/liability committee is responsible for these decisions. The Corporation primarily uses the securities portfolio and FHLB advances to manage its interest rate risk position. Additionally, pricing, promotion and product development activities are directed in an effort to emphasize the loan and deposit term or repricing characteristics that best meet current interest rate risk objectives. At present, there is no use of hedging instruments.

The committee operates under management policies defining guidelines and limits on the level of risk. These policies are approved by the Board of Directors.

The Corporation uses simulation analysis to assess earnings at risk and net present value analysis to assess value at risk. These methods allow management to regularly monitor both the direction and magnitude of the Corporation s interest rate risk exposure. These modeling techniques involve assumptions and estimates that inherently cannot be measured with complete precision. Key assumptions in the analyses include maturity and repricing characteristics of both assets and liabilities, prepayments on amortizing assets, non-maturity deposit sensitivity, and loan and deposit pricing. These assumptions are inherently uncertain due to the timing, magnitude and frequency of rate changes and changes in market conditions and management strategies, among other factors. However, the analyses are useful in quantifying risk and provide a relative gauge of the Corporation s interest rate risk position over time.

Earnings at Risk

Simulation analysis evaluates the effect of upward and downward changes in market interest rates on future net interest income. The analysis involves changing the interest rates used in determining net interest income over the next twelve months. The resulting percentage change in net interest income in various rate scenarios is an indication of the Corporation s short-term interest rate risk. The analysis utilizes a static balance sheet approach. The measurement date balance sheet composition (or mix) is maintained over the simulation time period, with maturing and repayment dollars being rolled back into like instruments for new terms at current market rates. Additional assumptions are applied to modify volumes and pricing under the various rate scenarios. These include prepayment assumptions on mortgage assets, the sensitivity of non-maturity deposit rates, and other factors deemed significant.

The simulation analysis results are presented in Table 13a. These results as of December 31, 2006, indicate that the Corporation would expect net interest income to decrease over the next twelve months by 0.3% assuming an upward ramp in market interest rates of 3.00%, and to decrease by 0.2% if rates ramped downward 3.00%. This profile reflects a balanced short-term rate risk position.

Earnings at risk simulations for December 31, 2005, exhibited higher liability sensitivity due to the varying mix of earning assets and liabilities, as well as differing assumptions on prepayments and sensitivity on non-maturity deposit products. Also, 2005 modeling used an immediate rate shock. In 2006, management felt that a gradual rate ramp was the more valid modeling technique.

Value at Risk

The net present value analysis provides information on the risk inherent in the balance sheet that might not be taken into account in the simulation analysis due to the shorter time horizon used in that analysis. The net present value of the balance sheet is defined as the discounted present value of expected asset cash flows minus the discounted present value of the expected liability cash flows. The analysis involves changing the interest rates used in determining the expected cash flows and in discounting the cash flows. The resulting percentage change in net present value in various rate scenarios is an indication of the longer term repricing risk and options embedded in the balance sheet.

The net present value analysis results are presented in Table 13b. These results, as of December 31, 2006, indicate that the net present value would decrease 10.1% assuming an upward shift in market interest rates of 3.00% and decrease 0.8% if rates shifted 1.00% in the same manner.

December 31, 2006 **Table 13a** **Net Interest Income Projections** **Changes in** **Basis Points**	**% Change**	**December 31, 2006** **Table 13b** **Present Value Equity** **Changes in** **Basis Points**	**% Change**
(300)	**(0.20)%**	**(300)**	**(8.30)%**
(100)	**1.00%**	**(100)**	**0.20%**
	%		**%**
100	**0.40%**	**100**	**(0.80)%**
300	**(0.30)%**	**300**	**(10.10)%**

December 31, 2005 **Table 13a** **Net Interest Income Projections** **Changes in** **Basis Points**	**% Change**	**December 31, 2005** **Table 13b** **Present Value Equity** **Changes in** **Basis Points**	**% Change**
(300)	1.87%	(300)	6.18%
(100)	1.14%	(100)	4.44%
	%		%
100	(6.11)%	100	(11.41)%
300	(15.07)%	300	(27.96)%

ITEM 8 FINANCIAL STATEMENTS

(a) The following audited consolidated financial statements and related documents are set forth in this Annual Report on Form 10-K on the following pages:

	Page
Report of Independent Registered Public Accounting Firm	39
Consolidated Statements of Condition	40
Consolidated Statements of Income	41
Consolidated Statements of Changes in Stockholders Equity	42
Consolidated Statements of Cash Flows	43
Notes to Consolidated Financial Statements	44

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
ACNB Corporation
Gettysburg, Pennsylvania

We have audited the accompanying consolidated statements of condition of ACNB Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders equity and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACNB Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note L to the consolidated financial statements, the Company changed its method of accounting for its defined benefit pension plan in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of ACNB Corporation s internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 8, 2007 expressed an unqualified opinion on management s assessment of internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting.

Beard Miller Company LLP
Harrisburg, Pennsylvania
March 8, 2007

ACNB CORPORATION
CONSOLIDATED STATEMENTS OF CONDITION

	December 31, 2006	2005
	Dollars in thousands, except per share data	
ASSETS		
Cash and due from banks	**$ 19,764**	$ 18,382
Interest bearing deposits in banks	**892**	892
Cash and Cash Equivalents	**20,656**	19,274
Securities available for sale	**336,251**	348,713
Securities held to maturity, fair value 2006 $16,496; 2005 $19,192	**16,546**	19,165
Loans held for sale	**601**	60
Loans, net of allowance for loan losses 2006 $5,375; 2005 $4,456	**518,843**	489,008
Premises and equipment	**14,871**	14,795
Restricted investment in bank stocks	**10,263**	9,053
Investment in bank-owned life insurance	**21,901**	21,116
Investments in low-income housing partnerships	**5,202**	5,665
Other assets	**19,623**	18,287
Total Assets	**$ 964,757**	$ 945,136
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	**$ 74,919**	$ 79,428
Interest bearing	**594,786**	599,953
Total Deposits	**669,705**	679,381
Short-term borrowings	**59,983**	59,307
Long-term borrowings	**145,520**	125,778
Other liabilities	**12,245**	6,660
Total Liabilities	**887,453**	871,126
STOCKHOLDERS EQUITY		
Common stock, $2.50 par value; 20,000,000 shares authorized; 5,706,970 and 5,436,101 shares issued and outstanding 2006 and 2005, respectively	**14,267**	13,590
Additional paid-in capital	**4,741**	
Retained earnings	**62,845**	65,556
Accumulated other comprehensive loss	**(4,549)**	(5,136)
Total Stockholders Equity	**77,304**	74,010
Total Liabilities and Stockholders Equity	**$ 964,757**	$ 945,136

The accompanying notes are an integral part of the consolidated financial statements.

ACNB CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2006	2005	2004
	Dollars in thousands, except per share data		
INTEREST INCOME			
Loan Interest and Fees	**$ 33,281**	$ 27,243	$ 23,578
Securities:			
Taxable	**13,260**	13,729	13,002
Tax-exempt	**931**	916	917
Dividends	**676**	288	153
Other	**139**	108	102
Total Interest Income	**48,287**	42,284	37,752
INTEREST EXPENSE			
Deposits	**14,937**	11,528	9,511
Short-term borrowings	**2,856**	1,253	793
Long-term borrowings	**5,655**	4,589	2,879
Total Interest Expense	**23,448**	17,370	13,183
Net Interest Income	**24,839**	24,914	24,569
PROVISION FOR LOAN LOSSES	**870**	516	300
Net Interest Income after Provision for Loan Losses	**23,969**	24,398	24,269
OTHER INCOME			
Service charges on deposit accounts	**1,938**	1,742	1,780
Income from fiduciary activities	**770**	717	714
Earnings on investment in bank-owned life insurance	**834**	768	683
Gains (losses) on sales of securities	**204**	(264)	1,113
Service charges on ATM and debit card transactions	**866**	738	713
Commissions from insurance sales	**4,245**	4,090	
Gains on sales of foreclosed real estate	**39**		
Other	**1,016**	1,094	862
Total Other Income	**9,912**	8,885	5,865
OTHER EXPENSES			
Salaries and employee benefits	**12,895**	12,884	9,884
Net occupancy expense	**2,206**	1,772	1,191
Equipment expense	**2,475**	2,395	2,131
Professional services	**1,136**	1,147	730
Other tax expense	**756**	782	751
Supplies and postage	**758**	761	633
Advertising expense	**682**	830	284
Other operating	**3,758**	3,926	2,967
Total Other Expenses	**24,666**	24,497	18,571
Income before Income Taxes	**9,215**	8,786	11,563
PROVISION FOR INCOME TAXES	**1,925**	1,410	2,255
Net Income	**$ 7,290**	$ 7,376	$ 9,308
PER SHARE DATA			
Basic earnings	**$ 1.28**	$ 1.29	$ 1.63
Cash dividends declared	**$ 0.80**	$ 0.87	$ 0.86

The accompanying notes are an integral part of the consolidated financial statements.

ACNB CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
Years Ended December 31, 2006, 2005 and 2004

	Common Stock	Additional Paid- in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
	In thousands				
BALANCE DECEMBER 31, 2003	$ 13,590	$	$ 58,711	$ 442	$ 72,743
Comprehensive income:					
Net income			9,308		9,308
Change in net unrealized gains on securities available for sale, net of reclassification adjustment and taxes				(2,205)	(2,205)
Change in minimum pension liability, net of taxes				(433)	(433)
Total Comprehensive Income					6,670
Cash dividends declared			(4,892)		(4,892)
BALANCE DECEMBER 31, 2004	13,590		63,127	(2,196)	74,521
Comprehensive income:					
Net income			7,376		7,376
Change in net unrealized gains on securities available for sale, net of reclassification adjustment and taxes				(2,962)	(2,962)
Change in minimum pension liability, net of taxes				22	22
Total Comprehensive Income					4,436
Cash dividends declared			(4,947)		(4,947)
BALANCE DECEMBER 31, 2005	13,590		65,556	(5,136)	74,010
5% stock dividend declared	677	4,741	(5,435)		(17)
Comprehensive income:					
Net income			7,290		7,290
Change in net unrealized losses on securities available for sale, net of reclassification adjustment and taxes				1,288	1,288
Total Comprehensive Income					8,578
Adjustment to initially apply FASB Statement No. 158, net of tax				(701)	(701)
Cash dividends declared			(4,566)		(4,566)
BALANCE DECEMBER 31, 2006	**$ 14,267**	**$ 4,741**	**$ 62,845**	**$ (4,549)**	**$ 77,304**

The accompanying notes are an integral part of the consolidated financial statements.

ACNB CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2006	**2005**	**2004**
	In thousands		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 7,290**	$ 7,376	$ 9,308
Adjustments to reconcile net income to net cash provided by operating activities:			
Gains on sales of loans, property and foreclosed real estate	**(251)**	(311)	(113)
Earnings on investment in bank-owned life insurance	**(834)**	(768)	(683)
(Gains) losses on sales of securities	**(204)**	264	(1,113)
Depreciation and amortization	**1,761**	1,605	845
Provision for loan losses	**870**	516	300
(Benefit) expense for deferred taxes	**22**	(140)	350
Net amortization of investment securities premiums	**918**	1,555	2,614
(Increase) decrease in interest receivable	**(406)**	(84)	334
Increase in interest payable	**1,298**	543	119
Proceeds from loans sold to others	**16,228**	15,554	8,466
Loans originated for sale	**(16,557)**	(15,103)	(8,778)
Decrease in other assets	**(109)**	(102)	(1,406)
Increase(decrease) in other liabilities	**(78)**	487	791
Net Cash Provided by Operating Activities	**9,948**	11,392	11,034
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities of securities held to maturity	**2,520**	5,188	17,491
Proceeds from maturities of securities available for sale	**21,615**	38,550	184,614
Proceeds from sales of securities available for sale		22,761	200,181
Purchase of securities available for sale	**(5,475)**	(34,813)	(424,870)
Net sale (purchase) of restricted investment in bank stocks	**(1,210)**	1,218	(3,224)
Net increase in loans	**(30,938)**	(52,893)	(25,880)
Purchase of bank-owned life insurance		(1,200)	(4,400)
Cash paid for insurance agency acquisitions, net of cash acquired		(5,810)	
Investments in low-income housing partnerships		(95)	(2,944)
Capital expenditures	**(1,509)**	(4,092)	(5,784)
Proceeds from sale of property and foreclosed real estate	**272**	692	181
Net Cash Used in Investing Activities	**(14,725)**	(30,494)	(64,635)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in demand deposits, interest-bearing deposits, and savings accounts	**(37,566)**	11,447	6,116
Net increase in time certificates of deposit	**27,890**	21,062	1,368
Net increase (decrease) in short-term borrowings	**676**	(5,659)	(4,710)
Dividends paid	**(4,566)**	(4,947)	(4,892)
Cash in lieu of fractional shares, stock dividend	**(17)**		
Proceeds from long-term borrowings	**75,000**	51,000	45,000
Repayments on long-term borrowings	**(55,258)**	(57,222)	
Net Cash Provided by Financing Activities	**6,159**	15,681	42,882
Net Increase (Decrease) in Cash and Cash Equivalents	**1,382**	(3,421)	(10,719)
CASH AND CASH EQUIVALENTS BEGINNING	**19,274**	22,695	33,414
CASH AND CASH EQUIVALENTS ENDING	**$ 20,656**	$ 19,274	$ 22,695
Interest paid	**$ 22,150**	$ 16,827	$ 13,064
Income taxes paid	**$ 2,234**	$ 3,202	$ 2,343

The accompanying notes are an integral part of the consolidated financial statements.

ACNB CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

ACNB Corporation provides banking, insurance, and financial services to businesses and consumers through its wholly-owned subsidiaries, Adams County National Bank and Russell Insurance Group, Inc. The Bank engages in full-service commercial and consumer banking and trust services through its twenty locations in Adams, Cumberland and York counties.

On November 19, 2004, the Corporation entered into a definitive agreement to acquire Russell Insurance Group, Inc., a full-service insurance agency, based in Westminster, Maryland, with a satellite office in Timonium, Maryland. The agency offers a broad range of property and casualty, life, and health insurance to both commercial and individual clients. This acquisition was finalized on January 5, 2005.

The Corporation, along with seven other banks, entered into a joint venture to form BankersRe Insurance Group, SPC (formerly Pennbanks Insurance Co., SPC), an offshore reinsurance company. Each participating entity owns an insurance cell through which its premiums and losses from credit life, health and accident insurance are funded. Each entity is responsible for the activity in its respective cell. The financial activity for the insurance cell has been reported in the consolidated financial statements and is not material to the consolidated financial statements.

The Corporation s primary source of revenue is interest income on loans and investment securities and fee income on its products and services. Expenses consist of interest expense on deposits and borrowed funds, provisions for loan losses, and other operating expenses.

Basis of Financial Statements

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of the Corporation and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated.

Financial statements prepared in accordance with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, fair value disclosures, the valuation of deferred tax assets, and the evaluation of other than temporary impairment of securities.

Assets held by the Trust Department in an agency or fiduciary capacity for its customers are excluded from the financial statements since they do not constitute assets of the Corporation. Assets held by the Trust Department amounted to $93,000,000 and $76,000,000 at December 31, 2006 and 2005, respectively. Income from fiduciary activities is recognized on the cash method, which approximates the accrual method.

Significant Group Concentrations of Credit Risk

Most of the Corporation s activities are with customers located within south central Pennsylvania and northern Maryland. Note C discusses the types of securities that the Corporation invests in. Note D

discusses the types of lending that the Corporation engages in. The Corporation does not have any significant concentrations greater than 10% of loans to any one industry or customer.

Reclassifications

For comparative purposes, prior years consolidated financial statements have been reclassified to conform with the 2006 presentation. Such reclassifications had no impact on net income.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, balances due from banks, and federal funds sold, all of which mature within ninety days.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported, net of tax, in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted Investment in Bank Stocks

Restricted investment in bank stocks includes Federal Reserve, Atlantic Central Bankers Bank and Federal Home Loan Bank (FHLB) stocks. Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula. The stock is carried at cost.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are sold with the mortgage servicing rights released to another financial institution through a correspondent relationship. The correspondent financial institution absorbs all of the risk related to rate lock commitments. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans

The Corporation grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout southcentral Pennsylvania and northern Maryland. The ability of the Corporation s debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged off no later than 120 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the

present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Corporation has entered into commitments to extend credit, including commitments under commercial lines of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. There were no foreclosed assets at December 31, 2006 and 2005, respectively.

Premises and Equipment

Land is carried at cost. Bank premises and furniture and equipment are carried at cost, less accumulated depreciation computed principally by the straight-line method over the assets estimated useful lives.

Investments in Low-Income Housing Partnerships

The Corporation s investments in low-income housing partnerships are accounted for using the cost method prescribed by Emerging Issues Task Force (EITF) No. 94-1. In accordance with EITF No. 94-1, tax credits are recognized as they become available. Any residual loss is amortized as the tax credits are received.

Bank-Owned Life Insurance

The Corporation s banking subsidiary maintains nonqualified compensation plans for selected senior officers. To fund the benefits under these plans, the Bank is the owner of single premium life insurance policies on participants in the nonqualified retirement plans. Investment in bank-owned life insurance policies was used to finance the nonqualified compensation plans and provide tax-exempt return to the Corporation.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Deferred tax assets are recognized subject to management s judgment that those assets will more likely than not be recognized.

Retirement Plan

The compensation cost of an employee s pension benefit is recognized on the projected unit credit method over the employee s approximate service period. The aggregate cost method is utilized for funding purposes.

Net Income per Share

The Corporation has a simple capital structure. Basic earnings per share of common stock is computed based on 5,706,970 weighted average shares of common stock outstanding for all years presented. The weighted average shares have been retroactively adjusted to give effect to a 5% common stock dividend effective December 2006.

Advertising Costs

Costs of advertising are expensed when incurred.

Intangible Assets

The Corporation accounts for its acquisitions using the purchase accounting method required by Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. Purchase accounting requires the total purchase price to be allocated to the estimated fair values of assets and liabilities acquired, including certain intangible assets that must be recognized. Generally, this results in a residual amount in excess of the net fair values, which is recorded as goodwill.

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 outstanding goodwill from its most recent testing, which was performed as of December 31, 2006. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested when such events occur. Other acquired intangible assets with infinite lives, such as core deposit intangibles, are required to be amortized over the estimated lives. Core deposit and other intangibles are generally amortized using the accelerated methods over estimated useful lives of ten to fifteen years.

Goodwill totaled $5,494,000 and $2,494,000 at December 31, 2006 and 2005, respectively. Intangible assets totaled $2,604,000 and $2,932,000 at December 31, 2006 and 2005, respectively. These amounts are included in Other Assets in the Statement of Condition.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Changes in certain assets and liabilities, such as unrealized gains (losses) on securities available for sale and the minimum pension liability, are reported as a separate component of the stockholders equity section of the balance sheet. Such items, along with net income, are components of comprehensive income.

The components of other comprehensive income (loss) and the related tax effects are as follows:

	Years Ended December 31,		
	2006	2005	2004
	In thousands		
Unrealized holding gains (losses) arising during the period	**$ 2,266**	$ (4,824)	$ (2,279)
Reclassification adjustment for gains (losses) realized in net income	**204**	(264)	1,113
Net unrealized losses	**2,062**	(4,560)	(3,392)
Tax effect	**774**	1,598	1,187
	1,288	(2,962)	(2,205)
Change in minimum pension liability		34	(660)
Tax effect		12	227
		22	(433)
Net of Tax Amount	**$ 1,288**	$ (2,940)	$ (2,638)

The December 31 balances of accumulated other comprehensive loss are as follows:

	Unrealized Losses on Securities	Pension Liability	Accumulated Other Comprehensive Loss
	In thousands		
BALANCE, DECEMBER 31, 2005	**$ (4,725)**	**$ (411)**	**$ (5,136)**
Change during 2006	**1,288**	**(701)**	**587**
BALANCE, DECEMBER 31, 2006	**$ (3,437)**	**$ (1,112)**	**$ (4,549)**

Segment Reporting

The Bank acts as an independent community financial services provider, which offers traditional banking and related financial services to individual business and government customers. Through its branch and automated teller machine networks, the Bank offers a full array of commercial and retail financial services, including the taking of time, savings, and demand deposits; the making of commercial, consumer, and mortgage loans; and the providing of other financial services. Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail and mortgage banking operations of the Bank. As such, discrete financial information is not available and segment reporting would not be meaningful. See Note S for a discussion of insurance operations.

New Accounting Standards

FIN No. 48

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 which clarifies the accounting for uncertainty in tax positions. This interpretation requires that companies recognize in their financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Corporation does not believe the impact of adopting FIN No. 48 on its financial statements will be material.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements , which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair

value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Corporation is currently evaluating the potential impact, if any, of the adoption of SFAS No. 157 on its consolidated financial position, results of operations, and cash flows.

SFAS No. 158

On September 29, 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans which amends SFAS No. 87 and SFAS No. 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS No. 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS No. 87 and SFAS No. 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date the date at which the benefit obligation and plan assets are measured is required to be the company s fiscal year-end. SFAS No. 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. See Note L Retirement Plans for presentation of the effects of SFAS 158.

SFAS No. 159

In February 15, 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This option is available to all entities, including not-for-profit organizations. Most of the provisions in Statement 159 are elective; however, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. The FASB s stated objective in issuing this standard is as follows: to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

The fair value option established by Statement 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. A not-for-profit organization will report unrealized gains and losses in its statement of activities or similar statement. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to the entire instruments and not to portions of instruments.

Statement 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided the entity makes that choice in the first 120 days of that fiscal year and elects to apply the provisions of FASB statement No. 157, Fair Value Measurements.

SAB No. 108

On September 13, 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB No. 108). SAB No. 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current

year misstatement. Prior to SAB No. 108, companies might evaluate the materiality of financial statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company s balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB No. 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Corporation has analyzed SAB No. 108 and determined that upon adoption it will have no impact on the reported results of operations or financial condition.

NOTE B RESTRICTIONS ON CASH AND DUE FROM BANKS

In return for services obtained through correspondent banks, the Corporation is required to maintain non-interest bearing cash balances in those correspondent banks. At December 31, 2006 and 2005, compensating balances approximated $3,077,000 and $3,217,000, respectively. During 2006 and 2005, average required balances approximated $2,816,000 and $6,293,000, respectively.

NOTE C SECURITIES

Amortized cost and fair value at December 31, 2006 and 2005, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	In thousands			
SECURITIES AVAILABLE FOR SALE:				
December 31, 2006:				
U.S. Government and agencies	**$ 158,913**	**$**	**$ 2,103**	**$ 156,810**
Mortgage-backed securities	**98,983**		**2,804**	**96,179**
State and municipal	**30,560**	**335**	**69**	**30,826**
Corporate bonds	**52,300**		**640**	**51,660**
Stock in other banks	**704**	**72**		**776**
	$ 341,460	**$ 407**	**$ 5,616**	**$ 336,251**
December 31, 2005:				
U.S. Government and agencies	$ 158,912	$	$ 2,562	$ 156,350
Mortgage-backed securities	120,851		3,049	117,802
State and municipal	22,909	30	79	22,860
Corporate bonds	52,812		1,834	50,978
Stock in other banks	500	223		723
	$ 355,984	$ 253	$ 7,524	$ 348,713

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	In thousands			
SECURITIES HELD TO MATURITY:				
December 31, 2006:				
U.S. Government and agencies	**$ 10,000**	**$ 81**	**$**	**$ 10,081**
Mortgage-backed securities	**6,415**		**131**	**6,284**
State and municipal	**131**			**131**
	$ 16,546	**$ 81**	**$ 131**	**$ 16,496**
December 31, 2005:				
U.S. Government and agencies	$ 10,000	$ 259	$	$ 10,259
Mortgage-backed securities	8,916		232	8,684
State and municipal	249			249
	$ 19,165	$ 259	$ 232	$ 19,192

At December 31, 2006, 17 mortgage-backed and 9 U.S. Government and agency securities have unrealized losses, and 26 of the securities have been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of specific securities. None of the securities in this category had an unrealized loss that exceeded 6% of amortized cost and a majority had unrealized losses totaling less than 2% of amortized cost.

At December 31, 2006, 17 state and municipal securities and 9 corporate bonds have unrealized losses, and 9 of the securities have been in a continuous loss position for 12 months or more. In analyzing the issuer s financial condition, management considers industry analysts reports, financial performance and projected target prices of investment analysts within a one-year time frame. None of the securities in this category had an unrealized loss that exceeded 3% of amortized cost and a majority had unrealized losses totaling less than 2% of amortized cost.

Currently, the Corporation holds two securities with a total fair value of $12,202,000 (Ford Motor Credit 6.5% due January 25, 2007, and GMAC 6.125% due August 28, 2007) that are not of investment grade, but are not considered other than temporarily impaired as management has the intent and ability to hold them to maturity at which time they are expected to pay in full.

Management routinely sells securities from its available for sale portfolio in an effort to manage and allocate the portfolio. At December 31, 2006, management had not identified any securities with an unrealized loss that it intends to sell. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

The following table shows the Corporation s investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2006 and 2005:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	In thousands					
SECURITIES AVAILABLE FOR SALE:						
DECEMBER 31, 2006:						
U.S. Government and agencies	**$**	**$**	**$ 156,810**	**$ 2,103**	**$ 156,810**	**$ 2,103**
Mortgage-backed securities			**96,179**	**2,804**	**96,179**	**2,804**
State and municipal	**5,659**	**69**			**5,659**	**69**
Corporate bonds			**51,660**	**640**	**51,660**	**640**
	$ 5,659	**$ 69**	**$ 304,649**	**$ 5,547**	**$ 310,308**	**$ 5,616**
SECURITIES HELD TO MATURITY:						
Mortgage-backed securities	**$**	**$**	**$ 6,284**	**$ 131**	**$ 6,284**	**$ 131**
SECURITIES AVAILABLE FOR SALE:						
DECEMBER 31, 2005:						
U.S. Government and agencies	$ 77,977	$ 935	$ 78,373	$ 1,627	$ 156,350	$ 2,562
Mortgage-backed securities	50,107	822	67,695	2,227	117,802	3,049
State and municipal	5,680	49	2,130	30	7,810	79
Corporate bonds	12,739	268	38,239	1,566	50,978	1,834
	$ 146,503	$ 2,074	$ 186,437	$ 5,450	$ 332,940	$ 7,524
SECURITIES HELD TO MATURITY:						
Mortgage-backed securities	$	$	$ 8,684	$ 232	$ 8,684	$ 232

Amortized cost and fair value at December 31, 2006, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay with or without penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	In thousands			
1 year or less	$ 78,875	$ 77,911	$ 10,131	$ 10,212
Over 1 year through 5 years	18,426	18,082		
Over 5 years through 10 years	136,769	135,669		
Over 10 years	7,703	7,634		
Mortgage-backed securities	98,983	96,179	6,415	6,284
Equity securities	704	776		
	$ 341,460	$ 336,251	$ 16,546	$ 16,496

The Corporation realized gross gains of $204,000 during 2006, $-0- during 2005, and $2,019,000 during 2004 and gross losses of $-0- during 2006, $264,000 during 2005, and $906,000 during 2004 on sales of securities available for sale.

At December 31, 2006 and 2005, securities with a carrying value of $80,389,000 and $95,760,000, respectively, were pledged as collateral as required by law on public and trust deposits, repurchase agreements and for other purposes.

NOTE D LOANS

Loans at December 31, 2006 and 2005, were as follows:

	2006	2005
	In thousands	
Commercial, financial and agricultural	$ 41,770	$ 36,583
Real estate:		
Commercial	116,347	103,501
Construction	41,675	31,907
Residential	313,406	311,241
Consumer	10,804	9,529
Total Loans	524,002	492,761
Deferred loan fees and costs, net	216	703
Allowance for loan losses	(5,375)	(4,456)
Net Loans	$ 518,843	$ 489,008

The Bank grants commercial, residential and consumer loans to customers primarily within southcentral Pennsylvania and northern Maryland and the surrounding area. A large portion of the loan portfolio is secured by real estate. Although the Bank has a diversified loan portfolio, its debtors ability to honor their contracts is influenced by the region s economy.

Changes in the allowance for loan losses were as follows:

	Years Ended December 31,		
	2006	2005	2004
	In thousands		
Balance, beginning	**$ 4,456**	$ 3,938	$ 3,978
Provision charged to operations	**870**	516	300
Recoveries on charged-off loans	**86**	89	50
Loans charged-off	**(37)**	(87)	(390)
Balance, ending	**$ 5,375**	$ 4,456	$ 3,938

Nonaccrual loans totaled $3,900,000 and $7,354,000 at December 31, 2006 and 2005, respectively. Loans past due 90 days or more and still accruing totaled $220,000 and $199,000 at December 31, 2006 and 2005, respectively. If interest on all nonaccrual loans had been accrued at original contract rates, it is estimated interest income would have been higher by $137,000 in 2006, $501,000 in 2005, and $384,000 in 2004.

The following is a summary of information pertaining to impaired loans:

	December 31,	
	2006	2005
	In thousands	
Impaired loans with a valuation allowance	**$ 6,982**	$ 3,419
Valuation allowance related to impaired loans	**$ 1,899**	$ 698

	Years Ended December 31,		
	2006	2005	2004
	In thousands		
Average investment in impaired loans	**$ 6,788**	$ 5,479	$ 5,085
Interest income recognized on impaired loans	**$ 493**	$ 14	$ 331

No additional funds are committed to be advanced in connection with impaired loans.

NOTE E PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

	2006	2005
	In thousands	
Land	**$ 1,370**	$ 1,314
Buildings and improvements	**15,509**	14,782
Furniture and equipment	**7,712**	7,806
Fixed assets in process	**274**	122
	24,865	24,024
Accumulated depreciation	**(9,994)**	(9,229)
	$ 14,871	$ 14,795

NOTE F INVESTMENTS IN LOW-INCOME HOUSING PARTNERSHIPS

ACNB Corporation is a limited partner in five partnerships, whose purpose is to develop, manage and operate residential low-income properties. At December 31, 2006 and 2005, the carrying value of these investments was approximately $5,202,000 and $5,665,000, respectively.

NOTE G DEPOSITS

Deposits were comprised of the following as of December 31:

	2006	2005
	In thousands	
Non-interest bearing demand	**$ 74,919**	$ 79,428
Interest bearing demand	**109,697**	122,269
Savings	**212,318**	232,803
Time certificates of deposit less than $100,000	**214,475**	198,853
Time certificates of deposit greater than $100,000	**58,296**	46,028
	$ 669,705	$ 679,381

Scheduled maturities of time certificates of deposit at December 31, 2006, were as follows:

	In thousands
2007	**$ 186,576**
2008	**47,396**
2009	**16,621**
2010	**19,245**
2011	**2,933**
	$ 272,771

NOTE H LEASE COMMITMENTS

Certain branch offices and equipment are leased under agreements which expire at varying dates through 2016. Most leases contain renewal provisions at the Corporation s option. The total rental expense for all operating leases was $560,000, $528,000 and $504,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31:

	In thousands
2007	**$ 418**
2008	**330**
2009	**240**
2010	**205**
2011	**163**
Later years	**578**
	$ 1,934

NOTE I BORROWINGS

Short-term borrowings and weighted-average interest rates at December 31 are as follows:

	2006 Amount	Rate	2005 Amount	Rate
	Dollars in thousands			
Treasury tax and loan note	**$ 450**	**4.66 %**	$ 450	4.23 %
Federal Home Loan Bank (FHLB) overnight advance	**39,614**	**5.41**	34,965	4.23
Securities sold under repurchase agreements	**19,919**	**2.13**	23,892	2.11
	$ 59,983	**4.39 %**	$ 59,307	3.38 %

Under an agreement with the FHLB, the Bank has a line of credit available in the amount of $85,000,000, of which $39,614,000 was outstanding at December 31, 2006. All FHLB advances are collateralized by a security agreement covering qualifying loans and unpledged U.S. Treasury, agency and mortgage-backed securities. In addition, all FHLB advances are secured by the FHLB capital stock owned by the Corporation having a par value of $9,943,000 at December 31, 2006, and $8,734,000 at December 31, 2005.

The Corporation offers a short-term investment program for corporate customers for secured investing. This program consists of overnight and short-term repurchase agreements that are secured by designated investment securities of the Corporation. The investment securities are under the control of the Corporation.

A summary of long-term debt as of December 31 is as follows:

	2006 Amount	**Rate**	**2005 Amount**	**Rate**
	Dollars in thousands			
FHLB fixed-rate advances maturing:				
2006	**$**	**%**	$ 55,000	2.91 %
2007	**70,000**	**4.54**	25,000	3.60
2008	**50,000**	**4.55**	20,000	3.96
2012	**10,000**	**4.41**	10,000	4.41
FHLB convertible advance maturing:				
2012	**10,000**	**4.27**	10,000	4.27
Loan payable to local bank	**5,520**	**6.50**	5,778	6.50
	$ 145,520	**4.59 %**	$ 125,778	3.61 %

The FHLB advances are collateralized by the security agreement and FHLB capital stock described previously. The Corporation can borrow a maximum of $478,539,000 from the FHLB, of which $298,925,000 was available at December 31, 2006. The FHLB has the option to convert the $10,000,000 convertible advance but not before three-month LIBOR reaches 8%. Upon the FHLB s conversion, the Bank has the option to repay the respective advance in full.

The loan payable to a local bank is payable in monthly installments of $52,569 and matures in January 2020. The loan is unsecured.

NOTE J RESTRICTIONS ON SUBSIDIARY DIVIDENDS, LOANS AND ADVANCES

Certain restrictions exist regarding the ability of the bank to transfer funds to the Corporation in the form of cash dividends, loans or advances. The approval of the Office of the Comptroller of the Currency is required to pay dividends in excess of earnings retained in the current year plus retained net profits for the preceding two years. As of December 31, 2006, $5,132,000 of undistributed earnings of the bank, included in consolidated retained earnings, was available for distribution to the Corporation as dividends without prior regulatory approval. Additionally, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank s capital to be reduced below applicable minimum capital requirements.

Under national banking laws, the Bank is also limited as to the amount it may loan to its affiliates, including the Corporation, unless such loans are collateralized by specific obligations. At December 31, 2006, the maximum amount available for transfer from the Bank to the Corporation in the form of loans was approximately $7,673,000.

NOTE K INCOME TAXES

The components of income tax expense for the years ended December 31, 2006, 2005 and 2004, are as follows:

	2006	2005	2004
	In thousands		
Federal:			
Current	**$ 1,821**	$ 1,483	$ 1,905
Deferred	**22**	(140)	350
	1,843	1,343	2,255
State:			
Current	**82**	67	
	$ 1,925	$ 1,410	$ 2,255

Reconciliations of the statutory federal income tax at a rate to the income tax expense reported in the consolidated statements of income for the years ended December 31, 2006, 2005 and 2004, are as follows:

	Percentage of Income before Income Taxes		
	2006	2005	2004
Federal income tax at statutory rate	**34.0 %**	34.0 %	35.0 %
State income taxes, net of federal benefit	**0.6**	0.5	
Tax-exempt income	**(3.8)**	(4.4)	(3.2)
Earnings on investment in life insurance	**(3.1)**	(2.8)	(2.0)
Rehabilitation and low-income housing credits	**(7.5)**	(9.0)	(9.9)
Other	**0.7**	(2.3)	(0.4)
	20.9 %	16.0 %	19.5 %

The provision for federal income taxes includes $69,000, $(90,000) and $390,000 of income taxes (benefit) related to net gains (losses) on sales of securities in 2006, 2005 and 2004, respectively. Rehabilitation and low-income housing income tax credits were $692,000 during 2006, $790,000 during 2005, and $1,139,000 for 2004. Projected credits are $677,000 in 2007 to 2009, and $2,071,000 thereafter.

Components of deferred tax assets and liabilities at December 31 were as follows:

	2006	2005
	In thousands	
Deferred tax assets:		
Allowance for loan losses	**$ 1,845**	$ 1,529
Available for sale securities	**1,772**	2,547
Accrued deferred compensation	**373**	356
Pension	**573**	215
Deferred loan fees	**81**	106
Other	**585**	540
	5,229	5,293
Deferred tax liabilities:		
Accumulated depreciation	**204**	125
Prepaid benefit cost	**691**	460
Prepaid expenses	**277**	280
	1,172	865
Net Deferred Tax Assets	**$ 4,057**	$ 4,428

NOTE L RETIREMENT PLANS

The Corporation s banking subsidiary has a non-contributory pension plan. Retirement benefits are a function of both years of service and compensation. The funding policy is to contribute annually the amount that is sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act.

Information pertaining to the activity in the plan, using a measurement date of November 1, 2006 and 2005, is as follows:

	2006	**2005**
	In thousands	
Change in benefit obligation:		
Benefit obligation, at beginning of year	**$ 15,831**	$ 15,296
Service cost	**566**	538
Interest cost	**852**	825
Actuarial gain	**(1,310)**	(314)
Benefits paid	**(843)**	(514)
Benefit obligation, at end of year	**15,096**	15,831
Change in plan assets:		
Fair value of plan assets at beginning of year	**13,643**	12,186
Actual return on plan assets	**1,377**	721
Employer contribution	**1,250**	1,250
Benefits paid	**(843)**	(514)
Fair value of plan assets at end of year	**15,427**	13,643
Funded Status	**$ 331**	$ (2,188)
Amounts recognized in statement of financial position		
Other assets	**$ 331**	N/A
Total	**$ 331**	N/A
Amounts recognized in accumulated other comprehensive loss		
Total net actuarial loss	**$ 1,264**	N/A
Transition obligation	**71**	N/A
Prior service cost	**349**	N/A
Total accumulated other comprehensive loss (not adjusted for applicable tax)	**$ 1,684**	N/A

The accumulated benefit obligation totaled $13,297,000 and $13,395,000 at December 31, 2006 and 2005, respectively. The intangible pension asset totaled $472,000 at December 31, 2005.

The components of net periodic benefit cost for the years ended December 31 are as follows:

	2006 In thousands	2005	2004
Components of net periodic benefit cost:			
Service cost	**$ 566**	$ 538	$ 436
Interest cost	**852**	825	783
Expected return on assets	**(1,015)**	(876)	(740)
Recognized net actuarial loss	**125**	152	74
Amortization of transition asset	**12**	12	12
Amortization of prior service cost	**39**	40	49
Net Periodic Benefit Cost	**$ 579**	$ 691	$ 614

For the years ended December 31, 2006, 2005 and 2004, the assumptions used to determine the net periodic benefit cost are as follows:

	2006	2005	2004
Discount rate	**5.50 %**	5.50 %	5.50 %
Expected long-term rate of return on plan assets	**7.75 %**	7.50 %	7.50 %
Annual salary increase	**4.62 %**	4.69 %	4.69 %

The Corporation s pension plan weighted-average assets allocations at December 31, 2006 and 2005, are as follows:

	2006	2005
Equity securities	**54 %**	56 %
Debt securities	**40**	38
Real estate	**6**	6
	100 %	100 %

Equity securities included Corporation common stock in amounts of $797,000, 5% of total plan assets, and $759,000, 6% of total plan assets, at December 31, 2006 and 2005, respectively.

The Bank expects to contribute $1,250,000 to its pension plan in 2007.

Based on current data and assumptions, the following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next ten fiscal years:

	In thousands
2007	**$ 660**
2008	**690**
2009	**740**
2010	**800**
2011	**880**
2012-2016	**5,260**

On September 29, 2006, the Financial Accounting Standards Board issued SFAS 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, and amendment of statements SFAS 87, SFAS 88, and SFAS 123(r).

The incremental effect of applying FASB Statement No. 158 on individual line items in the Statement of Condition:

	Before Application of Statement 158 In thousands	Adjustments	After Application of Statement 158
December 31, 2006			
Other pension benefits asset	**$ 2,015**	$ (1,684)	**$ 331**
Intangible pension asset	**472**	(472)	
Deferred tax asset	**3,699**	358	**4,057**
Total assets	**966,555**	(1,798)	**964,757**
Other pension benefits liability	**1,098**	(1,098)	
Total liabilities	**888,551**	(1,098)	**887,453**
Accumulated other comprehensive loss	**(3,848)**	(701)	**(4,549)**
Total stockholders equity	**78,005**	(701)	**77,304**
Total liabilities and stockholders equity	**966,555**	(1,798)	**964,757**

The Corporation s banking subsidiary maintains a 401(k) plan for the benefit of eligible employees. Employees may contribute up to 100% of their compensation subject to certain limits based on federal tax laws. The Bank makes matching contributions up to 100% of the first 4% of an employee s compensation contributed to the plan. Matching contributions vest to the employee equally over a 5 year period. Bank contributions to the Plan were $288,000, $289,000 and $276,000 for 2006, 2005 and 2004, respectively.

The Corporation s banking subsidiary maintains non-qualified compensation plans for selected senior officers. The estimated present value of future benefits is accrued over the period from the effective date of the agreements until the expected retirement dates of the individuals. The balance accrued for these plans included in other liabilities as of December 31, 2006 and 2005 totaled $1,088,000 and $1,039,000, respectively. The annual expense included in salaries and benefits expense totaled $146,000, $142,000 and $143,000 during the years ended December 31, 2006, 2005 and 2004, respectively. To fund the benefits under these plans, the Bank is the owner of single premium life insurance policies on participants in the non-qualified retirement plans. At December 31, 2006 and 2005, the cash surrender value of these policies was $3,625,000 and $3,501,000, respectively.

NOTE M REGULATORY MATTERS

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth below) of Tier 1 capital to average assets and of Tier 1 and total capital (as defined in the regulations) to risk-weighted assets. Management believes, as of December 31, 2006, that the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2006, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank s category.

The actual and required capital amounts and ratios were as follows:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Dollars in thousands					
CORPORATION:						
As of December 31, 2006:						
Tier 1 leverage ratio (to average assets)	**$ 73,756**	**7.74 %**	**$ 38,122**	**≥4.0 %**	**N/A**	**N/A**
Tier 1 risk-based capital ratio (to risk- weighted assets)	**73,756**	**12.65**	**23,316**	**≥4.0**	**N/A**	**N/A**
Total risk-based capital ratio (to risk- weighted assets)	**79,164**	**13.58**	**46,632**	**≥8.0**	**N/A**	**N/A**
As of December 31, 2005:						
Tier 1 leverage ratio (to average assets)	73,214	7.81 %	≥37,495	≥4.0 %	N/A	N/A
Tier 1 risk-based capital ratio (to risk- weighted assets)	73,214	13.14	≥22,286	≥4.0	N/A	N/A
Total risk-based capital ratio (to risk- weighted assets)	77,670	13.94	≥44,572	≥8.0	N/A	N/A
BANK:						
As of December 31, 2006:						
Tier 1 leverage ratio (to average assets)	**$ 71,350**	**7.55 %**	**$ 37,794**	**≥4.0 %**	**$ 47,242**	**5.0 %**
Tier 1 risk-based capital ratio (to risk- weighted assets)	**71,350**	**12.57**	**22,699**	**≥4.0**	**34,049**	**6.0**
Total risk-based capital ratio (to risk- weighted assets)	**76,625**	**13.52**	**45,398**	**≥8.0**	**56,748**	**10.0**
As of December 31, 2005:						
Tier 1 leverage ratio (to average assets)	69,065	7.44 %	≥37,145	≥4.0 %	≥46,431	≥ 5.0 %
Tier 1 risk-based capital ratio (to risk- weighted assets)	69,065	12.69	≥21,773	≥4.0	≥32,655	≥ 6.0
Total risk-based capital ratio (to risk- weighted assets)	73,521	13.51	≥43,547	≥8.0	≥54,419	≥10.0

NOTE N FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit (typically mortgages and commercial loans) and, to a lesser extent, standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

The Corporation s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. The Corporation does not anticipate any material losses from these commitments.

Commitments to extend credit, including commitments to grant loans and unfunded commitments under lines of credit, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extensions of credit, is based on management s credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties. On loans secured by real estate, the Corporation generally requires loan to value ratios of no greater than 80%.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and similar transactions. The terms of the letters of credit vary and may have renewal features. The credit risk involved in using letters of credit is essentially the same as that involved in extending loans to customers. The Corporation holds collateral supporting those commitments for which collateral is deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2006 and 2005, for guarantees under standby letters of credit issued is not material.

The Corporation has not been required to perform on any financial guarantees, and has not incurred any losses on its commitments, during the past two years.

A summary of the Corporation s commitments at December 31 were as follows:

	2006	**2005**
	In thousands	
Commitments to extend credit	**$ 133,722**	$ 116,893
Standby letters of credit	**3,965**	5,961

NOTE O FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Corporation s financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year ends and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The following information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation s assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation s disclosures and those of other companies may not be meaningful. For the following financial instruments, the carrying amount is a reasonable estimate of fair value:

Cash and cash equivalents

Interest bearing deposits in banks

Accrued interest receivable

Restricted investment in bank stocks

Short-term borrowings

Accrued interest payable

Securities

Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair value is based on quoted market prices of comparable securities.

Mortgage Loans Held for Sale

Fair values of mortgage loans held for sale are based on existing commitments from investors or prevailing market prices.

Loans

For variable rate loans that reprice frequently and which entail no significant changes in credit risk, the carrying amount is a reasonable estimate of fair value. For fixed rate loans, fair value is estimated using discounted cash flow analysis, at interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

Deposits

For demand deposits, the carrying amount is a reasonable estimate of fair value. For time deposits, fair value is estimated using discounted cash flow analysis, at interest rates currently offered for time deposits with similar maturities.

Long-Term Borrowings

The fair values of the Corporation s long-term borrowings are estimated using discounted cash flow analyses based on the Corporation s current incremental borrowing rates for similar types of borrowing arrangements.

Off-Balance Sheet Credit-Related Instruments

Off-balance sheet instruments of the Bank consist of letters of credit, loan commitments and unfunded lines of credit. Fair value is estimated using fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standings. Any fees charged are immaterial.

Estimated fair values of financial instruments at December 31 were as follows:

	2006 Carrying Amount In thousands	Fair Value	2005 Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	**$ 19,764**	**$ 19,764**	$ 18,382	$ 18,382
Interest bearing deposits in banks	**892**	**892**	892	892
Investment securities:				
Available for sale	**336,251**	**336,251**	348,713	348,713
Held to maturity	**16,546**	**16,496**	19,165	19,192
Loans held for sale	**601**	**601**	60	60
Loans, less allowance for loan losses	**518,843**	**521,004**	489,008	475,868
Accrued interest receivable	**4,773**	**4,773**	4,367	4,367
Restricted investment in bank stocks	**10,263**	**10,263**	9,053	9,053
Financial liabilities:				
Deposits	**669,705**	**667,391**	679,381	678,968
Short-term borrowings	**59,983**	**59,983**	59,307	59,307
Long-term borrowings	**145,520**	**143,458**	125,778	125,358
Accrued interest payable	**4,118**	**4,118**	2,820	2,820
Off-balance sheet financial instruments				

NOTE P CONTINGENCIES

The Corporation is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Corporation in connection with any such claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of any such claims and lawsuits will not have a material adverse effect on the consolidated financial position, consolidated results of operations or liquidity of the Corporation.

NOTE Q ACNB CORPORATION (PARENT COMPANY ONLY) FINANCIAL INFORMATION

STATEMENTS OF CONDITION

	December 31, 2006 In thousands	2005
ASSETS		
Cash	**$ 310**	$ 548
Investment in banking subsidiary	**66,817**	64,321
Investment in other subsidiaries	**7,113**	6,642
Investments in low-income housing partnerships	**5,202**	5,665
Securities and other assets	**1,314**	1,202
Receivable from banking subsidiary	**2,208**	1,679
Total Assets	**$ 82,964**	$ 80,057
LIABILITIES AND STOCKHOLDERS EQUITY		
Long-term debt	**$ 5,520**	$ 5,778
Other liabilities	**140**	269
Stockholders equity	**77,304**	74,010
Total Liabilities and Stockholders Equity	**$ 82,964**	$ 80,057

STATEMENTS OF INCOME

	Years Ended December 31,		
	2006	2005	2004
	In thousands		
Dividends from banking subsidiary	**$ 4,566**	$ 4,947	$ 6,592
Gains on sales of securities	**204**		
Other income	**147**	32	31
	4,917	4,979	6,623
Expenses	**1,092**	924	384
	3,825	4,055	6,239
Income tax benefit	**933**	1,092	1,256
	4,758	5,147	7,495
Equity in undistributed earnings of subsidiaries	**2,532**	2,229	1,813
Net Income	**$ 7,290**	$ 7,376	$ 9,308

STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2006	2005	2004
	In thousands		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 7,290**	$ 7,376	$ 9,308
Equity in undistributed earnings of subsidiaries	**(2,532)**	(2,229)	(1,813)
Increase in receivable from banking subsidiary	**(529)**	(744)	(750)
Gains on sales of securities	**(204)**		
Other	**578**		
NET CASH PROVIDED BY OPERATING ACTIVITIES	**4,603**	4,902	6,788
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in low-income housing partnerships		(95)	(2,944)
Purchase of insurance agency		(5,565)	
NET CASH USED IN INVESTING ACTIVITIES		(5,660)	(2,944)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Proceeds from long-term debt		6,000	
Repayments on long-term debt	**(258)**	(222)	
Cash paid in lieu of fractional shares-stock dividend	**(17)**		
Dividends paid	**(4,566)**	(4,947)	(4,892)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(4,841)**	831	(4,892)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(238)**	73	(1,048)
CASH AND CASH EQUIVALENTS BEGINNING	**548**	475	1,523
CASH AND CASH EQUIVALENTS ENDING	**$ 310**	$ 548	$ 475

NOTE R ACQUISITION

On January 5, 2005, the Corporation acquired 100 percent of Russell Insurance Group, Inc. (RIG), a Westminster, Maryland-based full service insurance agency, as a subsidiary of the Corporation. The results of RIG s operations have been included in the consolidated financial statements since that date. RIG offers a broad range of property and casualty, life and health insurance to both commercial and individual clients in northern Maryland and south central Pennsylvania.

The carrying amounts of the tangible assets acquired and the liabilities assumed on January 5, 2005, approximated their fair value. The excess of the acquisition cost over the fair value of the net assets

acquired has been recorded as goodwill. The aggregate purchase price was $5,663,000, including certain capitalized costs. In accordance with the terms of the acquisition, there is contingent consideration associated with this transaction of up to $3,000,000, subject to performance criteria for payment over three years subsequent to the acquisition. The liability for this consideration was recorded at December 31, 2006, with a related increase in goodwill. In addition, the Corporation has entered into a three-year employment contract with Frank C. Russell, Jr., President and Chief Executive Officer of RIG.

The intangible asset, representing the customer base, will be amortized over 10 years. Goodwill will not be amortized but will be analyzed annually for impairment. Amortization of goodwill and the intangible asset will be deductible for tax purposes.

In 2005, RIG acquired two additional books of business with an aggregate purchase price of $368,000. This amount is being amortized over 10 years.

Amortization for the five years subsequent to December 31, 2006, is expected to be as follows:

	In thousands
2007	**$ 328**
2008	**328**
2009	**328**
2010	**328**
2011	**325**

NOTE S SEGMENT AND RELATED INFORMATION

Russell Insurance Group is managed separately from the banking and related financial services that the Corporation offers. Russell Insurance Group offers a broad range of property and casualty, life and health insurance to both commercial and individual clients.

Segment information for 2006 and 2005 is as follows:

	2006	**2005**
	In thousands	
Commissions from insurance sales	**$ 4,067**	$ 3,941
Intercompany commissions	**178**	149
Income before income taxes	**998**	959
Total assets	**$ 11,579**	$ 7,729

QUARTERLY RESULTS OF OPERATIONS

Selected quarterly information for the years ended December 31, 2006 and 2005, is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	In thousands, except per share data			
2006				
Interest income	$ 11,590	$ 11,943	$ 12,301	$ 12,453
Interest expense	5,403	5,633	6,076	6,336
Net interest income	6,187	6,310	6,225	6,117
Provision for loan losses	225	225	225	195
Net interest income after provision for loan losses	5,962	6,085	6,000	5,922
Net gains on sales of securities		204		
Other income	2,494	2,413	2,346	2,455
Other expenses and provision for income taxes	6,730	6,771	6,440	6,650
Net income	$ 1,726	$ 1,931	$ 1,906	$ 1,727
Basic earnings per share	$ 0.30	$ 0.34	$ 0.33	$ 0.31
Dividends per share	$ 0.20	$ 0.20	$ 0.20	$ 0.20
2005				
Interest income	$ 10,096	$ 10,357	$ 10,702	$ 11,129
Interest expense	3,835	4,099	4,546	4,890
Net interest income	6,261	6,258	6,156	6,239
Provision for loan losses	90	90	168	168
Net interest income after provision for loan losses	6,171	6,168	5,988	6,071
Net gains (losses) on sales of securities		(272)	8	
Other income	2,293	2,283	2,347	2,226
Other expenses and provision for income taxes	6,382	6,450	6,559	6,516
Net income	$ 2,082	$ 1,729	$ 1,784	$ 1,781
Basic earnings per share	$ 0.36	$ 0.30	$ 0.32	$ 0.31
Dividends per share	$ 0.20	$ 0.20	$ 0.20	$ 0.27

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Corporation carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, the Corporation s disclosure controls and procedures are effective in timely alerting them to material information relating to the Corporation (including its consolidated subsidiaries) required to be included in our periodic SEC filings.

Based on our evaluation of the effectiveness of the design and operation of the disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that the Corporation s disclosure controls and procedures were effective as of December 31, 2006. The Corporation believes that

the accompanying financial statements fairly present the financial condition and results of operations for the fiscal years presented in this report on Form 10-K.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

We have made no significant changes in the Corporation s internal controls over financial reporting in connection with our fourth quarter evaluation that would materially affect, or are reasonably likely to materially affect, our internal controls over financial reporting.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

ACNB Corporation (ACNB) is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles, and as such, include some amounts that are based on management s best estimates and judgments.

ACNB s management is responsible for establishing and maintaining effective internal control over financial reporting. The system of internal control over financial reporting, as it relates to the financial statements, is evaluated for effectiveness by management and tested for reliability through a program of internal audits and management testing and review. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

The Board of Directors of ACNB, through its Audit Committee, meets regularly with management, internal auditors, and the independent registered public accounting firm. The Audit Committee provides oversight to ACNB by reviewing audit plans and results, and evaluates management s actions for internal control, accounting and financial reporting matters. The internal auditors and independent registered public accounting firm have direct and confidential access to the Audit Committee to discuss the results of their examinations.

Management assessed the effectiveness of ACNB s internal control over financial reporting as of December 31, 2006. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on our assessment, management concluded that as of December 31, 2006, ACNB s internal control over financial reporting is effective and meets the criteria of the *Internal Control Integrated Framework*.

ACNB s independent registered public accounting firm, Beard Miller Company, LLP, has issued an attestation report on management s assessment of ACNB s internal control over financial reporting. This report appears on pages 71 and 72.

/s/ THOMAS A. RITTER
Thomas A. Ritter
President and Chief Executive Officer

/s/ DAVID W. CATHELL
David W. Cathell
Senior Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of ACNB Corporation

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that ACNB Corporation (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that ACNB Corporation maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, ACNB Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of ACNB Corporation, and our report dated March 8, 2007 expressed an unqualified opinion on those consolidated financial statements.

Beard Miller Company LLP
Harrisburg, Pennsylvania
March 8, 2007

Item 9B OTHER INFORMATION

None.

PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item, relating to directors, executive officers, and control persons, is set forth in sections Information as to Nominees and Directors and Executive Officers of ACNB Corporation Meetings and Committees of the Board of Directors Audit Committee Report and Section 16(a) Beneficial Ownership Reporting Compliance of the Registrant s definitive Proxy Statement to be used in connection with the 2007 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

The Corporation has adopted a Code of Ethics that applies to directors, officers and employees of the Corporation and its subsidiaries. A copy of the Code of Ethics is included as an exhibit to this Form 10-K. A request for the Corporation s Code of Ethics can be made either in writing to Lynda L. Glass, ACNB Corporation, 16 Lincoln Square, P.O. Box 3129, Gettysburg, Pennsylvania 17325-0129 or by telephone to 717-334-3161.

ITEM 11 EXECUTIVE COMPENSATION

Incorporated by reference in response to this Item 11 is the information under the headings Compensation and Plan Information Potential Payments Upon Termination or Change-In-Control Comepensation Committee Report and Compensation Committee Interlocks and Insider Participation in ACNB Corporation s 2007 definitive Proxy Statement.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference in response to this Item 12 is the information appearing under the heading Share Ownership in ACNB Corporation s 2007 definitive Proxy Statement.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Incorporated by reference in response to this Item 13 is the information appearing under the heading Transactions with Directors and Executive Officers and Governance of the Corporation in ACNB Corporation s 2007 definitive Proxy Statement.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference in response to this Item 14 is the information appearing under heading Independent Auditors in ACNB Corporation s definitive Proxy Statement.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1 . FINANCIAL STATEMENTS

The following financial statements are filed as part of this report:

- Report of Independent Registered Public Accounting Firm
- Consolidated Statements of Condition
- Consolidated Statements of Income
- Consolidated Statements of Changes in Stockholders Equity
- Consolidated Statements of Cash Flows

- Notes to Consolidated Financial Statements

2. FINANCIAL STATEMENT SCHEDULES

Financial statement schedules are omitted because the required information is either not applicable, not required, or is shown in the respective financial statements or in the notes thereto.

(b) EXHIBITS

The following Exhibits are included in this Report:

Exhibit 3(i) Articles of Incorporation of ACNB Corporation, as amended.

Exhibit 3(ii) Bylaws of Registrant; a copy of the Bylaws, as amended. (Incorporated by reference to Exhibit 99 of the Registrant s Report on Form 8-K, filed with the Commission on December 19, 2003.)

Exhibit 10.1 ACNB Corporation, ACNB Acquisition Subsidiary LLC, and Russell Insurance Group, Inc. Stock Purchase Agreement. (Incorporated by reference to Exhibit 10.2 of the Registrant s Annual Report on Form 10-K for the year-ended December 31, 2004, filed with the Commission on March 15, 2005.)

Exhibit 10.2 Salary Continuation Agreement - Applicable to Ronald L. Hankey, Thomas A. Ritter, Lynda L. Glass and John W. Krichten. (Incorporated by reference to Exhibit 10.3 of the Registrant s Annual Report on Form 10-K for the year-ended December 31, 2004, filed with the Commission on March 15, 2005.)

Exhibit 10.3 Executive Supplemental Life Insurance Plan - Applicable to Ronald L. Hankey, Thomas A. Ritter, Lynda L. Glass and John W. Krichten. (Incorporated by reference to Exhibit 10.4 of the Registrant s Annual Report on Form 10-K for the year-ended December 31, 2004, filed with the Commission on March 15, 2005.)

Exhibit 10.4 Director Supplemental Life Insurance Plan - Applicable to Philip P. Asper, Frank Elsner III, D. Richard Guise, Wayne E. Lau, Daniel W. Potts, Marian B. Schultz, Alan J. Stock, Jennifer L. Weaver and Harry L. Wheeler. (Incorporated by reference to Exhibit 10.5 of the Registrant s Annual Report on Form 10-K for the year-ended December 31, 2004, filed with the Commission on March 15, 2005.)

Exhibit 10.5 Director Fee Deferral Agreement - Applicable to Frank Elsner III, D. Richard Guise, Wayne E. Lau, Marian B. Schultz, Alan J. Stock, Jennifer L. Weaver and Harry L. Wheeler. (Incorporated by reference to Exhibit 10.6 of the Registrant s Annual Report on Form 10-K for the year-ended December 31, 2004, filed with the Commission on March 15, 2005.)

Exhibit 10.6 Adams County National Bank Salary Savings Plan. (Incorporated by reference to Exhibit 10.7 of the Registrant s Annual Report on Form 10-K for the year-ended December 31, 2004, filed with the Commission on March 15, 2005.)

Exhibit 10.7 Group Pension Plan for Employees of Adams County National Bank. (Incorporated by reference to Exhibit 10.8 of the Registrant s Annual Report on Form 10-K for the year-ended December 31, 2004, filed with the Commission on March 15, 2005.)

Exhibit 10.8 Complete Settlement Agreement and General Release made among ACNB Corporation, Adams County National Bank and John W. Krichten effective June 13, 2006. (Incorporated by reference to Exhibit 99.1 of the Registrant s Current Report on Form 8-K, filed with the Commission on June 15, 2006.)

Exhibit 10.9 Employment Agreement between ACNB Corporation, Adams County National Bank and Thomas A. Ritter dated as of July 3, 2006. (Incorporated by reference to Exhibit 99.1 of the Registrant s Current Report on Form 8-K, filed with the Commission on July 6, 2006.)

Exhibit 10.10 Employment Agreement between ACNB Corporation, Adams County National Bank and Lynda L. Glass dated as of July 3, 2006. (Incorporated by reference to Exhibit 99.2 of the Registrant s Current Report on Form 8-K, filed with the Commission on July 6, 2006.)

Exhibit 11 Statement re computation of earnings

Exhibit 14 Code of Ethics.

Exhibit 21 Subsidiaries of the Registrant.

Exhibit 31.1 Chief Executive Officer Certification of Annual Report on Form 10-K.

Exhibit 31.2 Chief Financial Officer Certification of Annual Report on Form 10-K.

Exhibit 32.1 Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350 as Added by Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as Added by Section 906 of the Sarbanes-Oxley Act of 2002.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACNB CORPORATION (Registrant)

March 13, 2007
Date

By: /s/ THOMAS A. RITTER
Thomas A. Ritter
President and Chief Executive Officer

By: /s/ DAVID W. CATHELL
David W. Cathell
Senior Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 13, 2007, by the following persons in the capacities indicated.

/s/ PHILLIP P. ASPER		/s/ DANIEL W. POTTS
Philip P. Asper		Daniel W. Potts
Director		Director
/S/ FRANK ELSNER, III		/s/ THOMAS A. RITTER
Frank Elsner, III		Thomas A. Ritter
Director		Director, President and Chief Executive Officer
/s/ D. RICHARD GUISE		/s/ FRANK C. RUSSELL, JR.
D. Richard Guise		Frank C. Russell, Jr.
Director & Vice Chairman of the Board		Director
/s/ RONALD L. HANKEY		/s/ MARIAN B. SCHULTZ
Ronald L. Hankey		Marian B. Schultz
Director and Chairman of the Board		Director
		/s/ ALAN J. STOCK
Edgar S. Heberlig		Alan J. Stock
Director		Director
/s/ WAYNE E. LAU		/s/ JENNIFER L. WEAVER
Wayne E. Lau		Jennifer L. Weaver
Director		Director
		Harry L. Wheeler
		Director

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