ACNB CORP
Form 10-K
March 07, 2014

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year-ended December 31, 2013

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**
(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:

Title of each class	**Name of each exchange on which registered**
Common Stock, $2.50 par value per share	The NASDAQ Stock Market, LLC

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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

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

Large accelerated filer o Accelerated filer ý Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant at June 30, 2013, was approximately $97,774,246.

The number of shares of the registrant's common stock outstanding on March 7, 2014, was 5,991,311.

Documents Incorporated by Reference

Portions of the registrant's 2014 definitive Proxy Statement are incorporated by reference into Part III of this report.

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ACNB CORPORATION

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PART I

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Form 10-K contains forward-looking statements. Examples of forward-looking statements include, but are not limited to, (a) projections or statements regarding future earnings, expenses, net interest income, other income, earnings or loss per share, asset mix and quality, growth prospects, capital structure, and other financial terms, (b) statements of plans and objectives of management or the Board of Directors, and (c) statements of assumptions, such as economic conditions in the Corporation's market areas. Such forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "intends", "will", "should", "anticipates", or the negative of any of the foregoing or other variations thereon or comparable terminology, or by discussion of strategy. Forward-looking statements are subject to certain risks and uncertainties such as local economic conditions, competitive factors, and regulatory limitations. Actual results may differ materially from those projected in the forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following: the effects of new laws and regulations, specifically the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act; impacts of the new capital and liquidity requirements of the Basel III standards and other regulatory pronouncements, regulations and rules; ineffectiveness of the business strategy due to changes in current or future market conditions; future actions or inactions of the United States government, including effects of short- and long-term federal budget and tax negotiations and a failure to increase the government debt limit or a prolonged shutdown of the federal government; the effects of economic deterioration and the prolonged economic malaise on current customers, specifically the effect of the economy on loan customers' ability to repay loans; the effects of competition, and of changes in laws and regulations on competition, including industry consolidation and development of competing financial products and services; interest rate movements; difficulties in integrating and operating distinct business operations, including information technology difficulties; challenges in establishing and maintaining operations in new markets; volatilities in the securities markets; and, slow economic conditions. 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.

ITEM 1 BUSINESS

ACNB CORPORATION

ACNB Corporation (the Corporation or ACNB) is a $1.0 billion financial holding company headquartered in Gettysburg, Pennsylvania. Through its banking and nonbanking subsidiaries, ACNB provides a full range of banking and financial services to individuals and businesses, including commercial and retail banking, trust and investment management, and insurance. ACNB's banking operations are conducted through its primary operating subsidiary, ACNB Bank, with 19 retail banking offices in Adams, Cumberland and York Counties, Pennsylvania, as well as one loan production office in Franklin County, Pennsylvania, as of December 31, 2013. The Corporation was formed in 1982, then became the holding company for Adams County National Bank (now ACNB Bank) in 1983.

On January 5, 2005, ACNB Corporation completed the acquisition of Russell Insurance Group, Inc. (RIG) and RIG began to operate as a separate subsidiary of ACNB Corporation. In accordance with the terms of the acquisition, there was contingent consideration associated with this transaction of up to $3,000,000, payable in 2008 subject to performance criteria for the three-year

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period subsequent to the acquisition. Due to performance at a higher level than the performance criteria, the liability for this consideration was recorded at December 31, 2006, with a related increase in goodwill. Payment was made in the second quarter of 2008 after it was ascertained that the performance criteria had been met for the full three-year period; after which, the total aggregate purchase price was $8,663,000. In addition, on January 13, 2011, the Corporation entered into another three-year employment agreement with Frank C. Russell, Jr., President & Chief Executive Officer of RIG, effective as of January 1, 2011. That agreement is subject to automatic renewal for successive one-year periods beginning on the third anniversary date of the effective date, subject to the terms and conditions set forth in that agreement, unless either party notifies the other in writing at least 90 days prior to termination of the then current term of the party's desire to terminate the agreement.

In 2007, RIG acquired two additional books of business with an aggregate purchase price of $637,000. In 2008, RIG acquired an additional book of business with an aggregate purchase price of $1,165,000, all of which was classified as an intangible asset. Also, on December 31, 2008, RIG acquired Marks Insurance & Associates, Inc. with an aggregate purchase price of $1,853,000, of which $1,300,000 was recorded as an intangible asset and $553,000 was recorded as goodwill. The contingent consideration for both 2008 purchases was calculated based on 2011 results of operation. The contingent amount of $338,000 was recorded in December 2011 and is included in goodwill and the other liabilities section of the statement of condition, and was paid on January 13, 2012. The intangible assets (excluding goodwill) are being amortized over ten years on a straight line basis.

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

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 RIG. 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 NASDAQ Capital Market under the symbol ACNB.

BANKING SUBSIDIARY

ACNB Bank

On October 4, 2010, the banking subsidiary, then Adams County National Bank, completed the process of converting from a national banking association to a Pennsylvania state-chartered bank and trust company with the filing and effectiveness of its Articles of Conversion with the Pennsylvania Department of State. Accordingly, Adams County National Bank became ACNB Bank (Bank). Reasons for the conversion included the Corporation's belief that a state bank charter serves the needs of a community bank more effectively. The Pennsylvania Department of Banking and Securities focuses solely on Pennsylvania financial institutions, so there was an anticipation of a better understanding of the Bank and the environment in which it operates, as well as an enhanced level of communication. In addition, the Bank serves customers in four counties Adams, Cumberland, York and Franklin and the name of Adams County National Bank no longer served the organization well in expansion beyond Adams County.

ACNB Bank is a full-service commercial bank operating under charter from the Pennsylvania Department of Banking and Securities. The Bank's principal market area is Adams County, Pennsylvania, which is located in southcentral Pennsylvania. Adams County depends on agriculture,

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industry and tourism to provide employment for its residents. No single sector dominates the county's economy. At December 31, 2013, ACNB Bank had total assets of $1,033,000,000, total gross loans of $729,000,000, total deposits of $801,000,000, and total equity capital of $90,000,000.

The main office of the Bank is located at 16 Lincoln Square, Gettysburg, Pennsylvania. In addition to its main office, as of December 31, 2013, the Bank had thirteen branches in Adams County, four branches in York County, and one branch in Cumberland County, as well as a loan production office in Franklin County, Pennsylvania. A new full-service branch is planned for 2014 in Chambersburg, Franklin County, Pennsylvania. ACNB Bank's service delivery channels for its customers also include the ATM network, Customer Contact Center, and Online, Telephone, and Mobile Banking. The Bank is subject to regulation and periodic examination by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation (FDIC). The FDIC, as provided by law, insures the Bank's deposits.

Commercial lending includes commercial mortgages, real estate development and construction loans, 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 investment mortgage loans.

A trust is a legal fiduciary agreement whereby the ACNB Bank Trust Department is named as trustee of financial assets. As trustee, the Trust Department invests, protects, manages and distributes financial assets as defined in the agreement. Estate settlement governed by the last will and testament of an individual constitutes another part of the Trust Department business. One purpose of having a will is to name an executor to settle the estate. ACNB Bank has the knowledge and expertise to act as executor. Other services include, but are not limited to, those related to testamentary trusts, life insurance trusts, charitable remainder trusts, guardianships, powers of attorney, custodial accounts, and investment management and advisory accounts. Total trust assets under management were $151,000,000 at December 31, 2013.

NONBANKING SUBSIDIARIES

Russell Insurance Group, Inc.

In January 2005, ACNB Corporation acquired Russell Insurance Group, Inc. (RIG), a full-service insurance agency that offers a broad range of property and casualty, life, and health insurance to both commercial and individual clients. Based in Westminster, Maryland, RIG has served the needs of its clients since its founding as an independent insurance agency by Frank C. Russell, Jr. in 1978. With the acquisition of Marks Insurance & Associates, Inc. as of December 31, 2008, RIG operates a second office location in Germantown, Maryland. Total assets of RIG as of December 31, 2013, were $10,450,000.

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 was novated to a third party during 2012. This entity is not material to ACNB's financial condition or results of operations.

MARKET AREA ECONOMIC FEATURES AND CONDITIONS

ACNB Corporation, headquartered in Gettysburg, Pennsylvania, is the financial holding company for the wholly-owned subsidiaries of ACNB Bank, Gettysburg, Pennsylvania, and Russell Insurance Group, Inc., Westminster, Maryland. ACNB Bank serves its marketplace via a network of 19 retail

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banking offices located throughout Adams County, Pennsylvania, as well as in Dillsburg, Hanover, and Spring Grove, York County, Pennsylvania, and in Newville, Cumberland County, Pennsylvania. In addition, the Bank operates a loan office in Chambersburg, Franklin County, Pennsylvania, with plans for a new retail banking office in this community in 2014. Russell Insurance Group, Inc. offers a broad range of commercial and personal insurance lines with licenses in 36 states, including Pennsylvania and Maryland, through offices in Westminster, Carroll County, and Germantown, Montgomery County, Maryland. Accordingly, ACNB Corporation's major operations are in the more rural areas of the Harrisburg-Carlisle MSA and the York-Hanover MSA, along with all of Adams County, Pennsylvania, and parts of Franklin County, Pennsylvania. Approximately 60% of the population resides in areas designated rural. Major types of employers include those focused on manufacturing, education, healthcare, agriculture, tourism, and transportation/warehousing, as well as local governments. A material amount of land surrounding Gettysburg is under the control of the National Park Service, limiting certain types of development. Unemployment figures recently, and historically, have been better than those for Pennsylvania and the United States. Per capita and household incomes are generally under Pennsylvania averages.

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 bank, as well as funding sources in the capital markets that exceed ACNB's availability. The high level of 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. There are 80 publicly-traded banks in Pennsylvania, 19 have higher market share than ACNB. In addition, there are 18 thrift institutions and numerous credit unions in Pennsylvania, some with higher market share. Banks, thrifts, credit unions, and other financial service providers in northern Maryland are also competition.

SUPERVISION AND REGULATION

Regulation of Bank Holding Company and Subsidiaries

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

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

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

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Pennsylvania law permits Pennsylvania financial holding companies to control an unlimited number of banks.

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

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

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 ACNB 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 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) In 2002, the Sarbanes-Oxley Act of 2002 became law. 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 (SEC) under the Securities Exchange Act of 1934, or the Exchange Act.

The SOA includes very specific additional disclosure requirements and corporate governance rules, as well as requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance, and other related rules. The SOA represents significant federal involvement in matters

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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 blackout periods;
- Disclosure of off-balance sheet transactions;
- A prohibition on personal loans to directors and officers;
- Expedited filing requirements for SEC Forms 4;
- Disclosure of a code of ethics and filing an SEC 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 of the SOA with respect to, among other matters, disclosure in periodic filings pursuant to the Exchange Act.

AMERICAN JOBS CREATION ACT OF 2004 In 2004, the American Jobs Creation Act was enacted as the first major corporate tax act in years. The act addresses a number of areas of corporate taxation including executive deferred compensation restrictions. The impact of the act on ACNB is not material.

BANK SECRECY ACT (BSA) Under the Bank Secrecy Act, banks and other financial institutions are required to report to the Internal Revenue Service currency transactions of more than $10,000 or multiple transactions of which a bank is aware in any one day that aggregate in excess of $10,000 and to report suspicious transactions under specified criteria. Civil and criminal penalties are provided under the BSA for failure to file a required report, for failure to supply information required by the BSA, or for filing a false or fraudulent report.

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT (DODD-FRANK) In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. Dodd-Frank is intended to effect a fundamental restructuring of federal banking regulation. Among other things, Dodd-Frank created a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms. Dodd-Frank additionally created a new independent federal regulator to administer federal consumer protection laws. Dodd-Frank has had and will continue to have a significant impact on ACNB's business operations as its provisions take effect. It is expected that, as various implementing rules and regulations are released, they will increase ACNB's operating and

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compliance costs and could increase the Bank's interest expense. Among the provisions that are likely to affect ACNB are the following:

Holding Company Capital Requirements

Dodd-Frank requires the Federal Reserve to apply consolidated capital requirements to bank holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010, by a bank holding company with less than $15 billion in assets. Dodd-Frank additionally requires that bank regulators issue countercyclical capital requirements so that the required amount of capital increases in times of economic expansion, consistent with safety and soundness. For further information, please refer to *Regulatory Capital Changes* in Management's Discussion and Analysis.

Deposit Insurance

Dodd-Frank permanently increases the maximum deposit insurance amount for banks, savings institutions and credit unions to $250,000 per depositor, and extended unlimited deposit insurance to non-interest bearing transaction accounts through December 31, 2012. Dodd-Frank also broadens the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. Dodd-Frank requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. Effective one year from the date of enactment, on July 21, 2011, Dodd-Frank eliminated the federal statutory prohibition against the payment of interest on business checking accounts.

Corporate Governance

Dodd-Frank requires publicly-traded companies to give stockholders a non-binding vote on executive compensation at least every three years, a non-binding vote regarding the frequency of the vote on executive compensation at least every six years, and a non-binding vote on "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by stockholders. The SEC has finalized the rules implementing these requirements which took effect on January 21, 2011. Additionally, Dodd-Frank directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion, regardless of whether the company is publicly traded. Dodd-Frank also gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Prohibition Against Charter Conversions of Troubled Institutions

Effective one year after enactment, Dodd-Frank prohibits a depository institution from converting from a state to a federal charter, or vice versa, while it is the subject of a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter unless the appropriate federal banking agency gives notice of the conversion to the federal or state authority that issued the enforcement action and that agency does not object within 30 days. The notice must include a plan to address the significant supervisory matter. The converting institution must also file a copy of the conversion application with its current federal regulator, which must notify the resulting federal regulator of any ongoing supervisory or investigative proceedings that are likely to result in an enforcement action and provide access to all supervisory and investigative information relating thereto.

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Interstate Branching

Dodd-Frank authorizes national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks are able to enter new markets more freely.

Limits on Interstate Acquisitions and Mergers

Dodd-Frank precludes a bank holding company from engaging in an interstate acquisition the acquisition of a bank outside its home state unless the bank holding company is both well capitalized and well managed. Furthermore, a bank may not engage in an interstate merger with another bank headquartered in another state unless the surviving institution will be well capitalized and well managed. The previous standard in both cases was adequately capitalized and adequately managed.

Limits on Interchange Fees

Dodd-Frank amends the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

Consumer Financial Protection Bureau

Dodd-Frank creates a new, independent federal agency called the Consumer Financial Protection Bureau (CFPB), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act, and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB, but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. Dodd-Frank authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, Dodd-Frank allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. Dodd-Frank permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

ABILITY-TO-REPAY AND QUALIFIED MORTGAGE RULE Pursuant to Dodd-Frank as highlighted above, the CFPB issued a final rule on January 10, 2013 (effective on January 10, 2014), amending Regulation Z as implemented by the Truth in Lending Act, requiring mortgage lenders to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Mortgage lenders are required to determine consumers' ability to repay in one of two ways. The first alternative requires the mortgage lender to consider the following eight underwriting factors when making the credit decision: (1) current or reasonably expected income or assets; (2) current employment status; (3) the monthly payment on the covered transaction; (4) the monthly payment on any simultaneous loan; (5) the monthly payment for mortgage-related obligations; (6) current debt obligations, alimony, and child support; (7) the monthly debt-to-income ratio or residual income; and, (8) credit history. Alternatively,

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the mortgage lender can originate "qualified mortgages", which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a "qualified mortgage" is a mortgage loan without negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount. Loans which meet these criteria will be considered qualified mortgages and, as a result, generally protect lenders from fines or litigation in the event of foreclosure. Qualified mortgages that are "higher-priced" (e.g., subprime loans) garner a rebuttable presumption of compliance with the ability-to-repay rules, while qualified mortgages that are not "higher-priced" (e.g., prime loans) are given a safe harbor of compliance. The impact of the final rule, and the subsequent amendments thereto, on the Corporation's lending activities and the Corporation's statements of income and condition are uncertain at this time.

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

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

Extensions of credit to the bank holding company, its subsidiaries, or principal shareholders;

Investments in the stock or other securities of the bank holding company or its subsidiaries; and,

Taking such stock or securities as collateral for loans.

COMMUNITY REINVESTMENT ACT OF 1977 (CRA) Under the Community Reinvestment Act of 1977, the FDIC is required to assess the record of all financial institutions regulated by it to determine if these institutions are meeting the credit needs of the community, including low- and moderate-income neighborhoods, which they serve and to take this record into account in its evaluation of any application made by any of such institutions for, among other things, approval of a branch or other deposit facility, office relocation, merger, or acquisition of bank shares. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 amended the CRA to require, among other things, that the FDIC 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 follows and as illustrated below: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized.

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

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

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In the event an institution's capital deteriorates to the undercapitalized category or below, FDICIA prescribes an increasing amount of regulatory intervention, including the institution of a capital restoration plan and a guarantee of the plan by a parent institution and the placement of a hold on increases in assets, number of branches, or lines of business. If capital reaches the significantly or critically undercapitalized levels, further material restrictions can be imposed, including restrictions on interest payable on accounts, dismissal of management, and, in critically undercapitalized situations, appointment of a receiver. For well capitalized institutions, FDICIA provides authority for regulatory intervention when 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 established by Federal Reserve Board regulations.

JUMPSTART OUR BUSINESS STARTUPS (JOBS) ACT In 2012, the JOBS Act became law. The JOBS Act is aimed at facilitating capital raising by smaller companies and banks and bank holding companies by implementing the following changes:

- Raising the threshold requiring registration under the Securities Exchange Act of 1934 (Exchange Act) for banks and bank holding companies from 500 to 2,000 holders of record;

- Raising the threshold for triggering deregistration under the Exchange Act for banks and bank holding companies from 300 to 1,200 holders of record;

- Raising the limit for Regulation A offerings from $5 million to $50 million per year and exempting some Regulation A offerings from state blue sky laws;

- Permitting advertising and general solicitation in Rule 506 and Rule 144A offerings;

- Allowing private companies to use "crowd funding" to raise up to $1 million in any 12-month period, subject to certain conditions; and,

- Creating a new category of issuer, called an "Emerging Growth Company", for companies with less than $1 billion in annual gross revenue, which will benefit from certain changes that reduce the cost and burden of carrying out an equity initial public offering (IPO) and complying with public company reporting obligations for up to five years.

While the JOBS Act is not expected to have any immediate application to the Corporation, and since 2012 has had no material impact, management will continue to monitor the implementation rules for potential effects which might benefit the Corporation.

Dividends

ACNB is a legal entity separate and distinct from its subsidiary bank. ACNB's revenues, on a parent company only basis, result primarily from dividends paid to the Corporation by its subsidiary bank. Federal and state laws regulate the payment of dividends by ACNB's subsidiary bank. For further information, please refer to *Regulation of Bank* below.

Regulation of Bank

The operations of the subsidiary bank are subject to statutes applicable to banks chartered under the banking laws of Pennsylvania, to state nonmember banks, and to banks whose deposits are insured by the FDIC. The subsidiary bank's operations are also subject to regulations of the Pennsylvania Department of Banking and Securities, Federal Reserve, and FDIC.

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The Pennsylvania Department of Banking and Securities, which has primary supervisory authority over banks chartered in Pennsylvania, regularly examines banks in such areas as reserves, loans, investments, management practices, and other aspects of operations. The subsidiary bank is also subject to examination by the FDIC for safety and soundness, as well as consumer compliance. These examinations are designed for the protection of the subsidiary bank's depositors rather than ACNB's stockholders. The subsidiary bank must file quarterly and annual reports to the Federal Financial Institutions Examination Council, or FFIEC.

Monetary and Fiscal Policy

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

ACCOUNTING POLICY DISCLOSURE

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

Management, in determining the allowance for loan losses, makes significant judgments. 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

Loan Portfolio

Allocation of Allowance for Loan Losses

Deposits

Short-Term Borrowings

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AVAILABLE INFORMATION

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

Upon a shareholder'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 & Chief Governance Officer, ACNB Corporation, 16 Lincoln Square, P.O. Box 3129, Gettysburg, PA 17325, or visit our website at http://www.acnb.com and click on "ACNB Corporation Investor Relations".

EMPLOYEES

As of December 31, 2013, ACNB had 290 full-time equivalent employees. None of these employees are represented by a collective bargaining agreement, and ACNB believes it enjoys good relations with its personnel.

ITEM 1A RISK FACTORS

ACNB IS SUBJECT TO INTEREST RATE RISK.

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

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on ACNB's results of operations, any substantial, unexpected or 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, 2013, approximately 43% 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

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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 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 the following: 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. Further, if charge-offs in future periods exceed the allowance for loan losses, ACNB will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income, and possibly capital, and may have a material adverse effect on ACNB's financial condition and results of operations.

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

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

In attracting business and consumer deposits, its banking subsidiary faces substantial competition from other insured depository institutions such as banks, savings institutions, and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of ACNB's competitors enjoy advantages, including greater financial resources, wider geographic presence, more aggressive marketing campaigns, better brand recognition, more branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, and lower origination and operating costs. 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 the subsidiary'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.

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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 ACNB's 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 ACNB's margins on banking services, reduce its market share, and adversely affect its earnings and financial condition.

THE BASEL III CAPITAL REQUIREMENTS MAY REQUIRE ACNB TO MAINTAIN HIGHER LEVELS OF CAPITAL, WHICH COULD REDUCE ACNB'S PROFITABILITY.

Basel III targets higher levels of base capital, certain capital buffers, and a migration toward common equity as the key source of regulatory capital. Although the new capital requirements are phased in over the next decade and may change substantially before final implementation, Basel III signals a growing effort by domestic and international bank regulatory agencies to require financial institutions, including depository institutions, to maintain higher levels of capital. The direction of the Basel III implementation activities or other regulatory viewpoints could require additional capital to support our business risk profile prior to final implementation of the Basel III standards. If ACNB and the Bank are required to maintain higher levels of capital, ACNB and the Bank may have fewer opportunities to invest capital into interest-earning assets, which could limit the profitable business operations available to ACNB and the Bank and adversely impact ACNB's financial condition and results of operations.

THE CORPORATION'S OPERATIONS OF ITS BUSINESS, INCLUDING ITS TRANSACTIONS WITH CUSTOMERS, ARE INCREASINGLY DONE VIA ELECTROINC MEANS, AND THIS HAS INCREASED ITS RISKS RELATED TO CYBER SECURITY.

The Corporation is exposed to the risk of cyber-attacks in the normal course of business. In addition, the Corporation is exposed to cyber-attacks on vendors and merchants that affect the Corporation and its customers. In general, cyber incidents can result from deliberate attacks or unintentional events. The Corporation has observed an increased level of attention in the industry focused on cyber-attacks that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. To combat against these attacks, policies and procedures are in place to prevent or limit the effect of the possible security breach of its information systems and it has insurance against some cyber-risks and attacks. While the Corporation has not incurred any material losses related to cyber-attacks, nor is it aware of any specific or threatened cyber-incidents as of the date of this report, it may incur substantial costs and suffer other negative consequences if it falls victim to successful cyber-attacks. Such negative consequences could include remediation costs that may include liability for stolen assets or information and repairing system damage that may have been caused; deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants; lost revenues resulting from unauthorized use of proprietary information or the failure to retain or attract customers following an attack; litigation; and reputational damage adversely affecting customer or investor confidence.

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

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

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

ACNB is a financial holding company and its operations are conducted by its subsidiaries. Its ability to pay dividends depends on its receipt of dividends from its subsidiaries. Dividend payments from its banking subsidiary are subject to legal and regulatory limitations, generally based on net profits and retained earnings, imposed by the various banking regulatory agencies. The ability of its subsidiaries to pay dividends is also subject to their 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 the 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 and/or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of ACNB's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business and new products or services could have a material adverse effect on ACNB's business, financial condition, and results of operations.

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

ACNB's success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by ACNB can be intense, and ACNB may not be able to hire people or to retain them. The unexpected loss of services of one or more of ACNB's key personnel could have a material adverse impact on ACNB's business because the Bank would no longer have the benefit of their skills, knowledge of ACNB's market, as well as years of industry experience,

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and it would be difficult to promptly find qualified replacement personnel. ACNB currently has employment agreements, including covenants not to compete, with the following named executive officers: its President & Chief Executive Officer; Executive Vice President, Secretary & Chief Governance Officer; Executive Vice President, Treasurer & Chief Financial Officer; the Executive Vice President of Banking Services of ACNB Bank; and, the President & Chief Executive Officer of Russell Insurance Group, Inc.

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

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

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

ACNB's common stock trades on NASDAQ, 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, and 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, primarily through its banking subsidiary, 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 and financial holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on ACNB's financial condition and results of operations.

Like other financial 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.

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THE SOUNDNESS OF OTHER FINANCIAL INSTITUTIONS MAY ADVERSELY AFFECT ACNB.

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

MARKET VOLATILITY MAY HAVE MATERIALLY ADVERSE EFFECTS ON ACNB'S LIQUIDITY AND FINANCIAL CONDITION.

The capital and credit markets have experienced extreme volatility and disruption. Over the last several years, in some cases, the markets have exerted downward pressure on stock prices, security prices, and credit capacity for certain issuers without regard to those issuers' underlying financial strength. If the market disruption and volatility returns, there can be no assurance that ACNB will not experience adverse effects, which may be material, on its liquidity, financial condition, and profitability.

ACNB MAY NEED OR BE COMPELLED TO RAISE ADDITIONAL CAPITAL IN THE FUTURE WHICH COULD DILUTE SHAREHOLDERS OR BE UNAVAILABLE WHEN NEEDED OR AT UNFAVORABLE TERMS.

ACNB's regulators or market conditions may require it to increase its capital levels. If ACNB raises capital through the issuance of additional shares of its common stock or other securities, it would likely dilute the ownership interests of current investors and would likely dilute the per share book value and earnings per share of its common stock. Furthermore, it may have an adverse impact on ACNB's stock price. New investors may also have rights, preferences and privileges senior to ACNB's current shareholders, which may adversely impact its current shareholders. ACNB's ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside its control, and on its financial performance. Accordingly, ACNB cannot be assured of its ability to raise additional capital on terms and time frames acceptable to it or to raise additional capital at all. If ACNB cannot raise additional capital in sufficient amounts when needed, its ability to comply with regulatory capital requirements could be materially impaired. Additionally, the inability to raise capital in sufficient amounts may adversely affect ACNB's operations, financial condition, and results of operations.

ACNB'S FUTURE ACQUISITIONS COULD DILUTE SHAREHOLDER OWNERSHIP AND MAY CAUSE IT TO BECOME MORE SUSCEPTIBLE TO ADVERSE ECONOMIC EVENTS.

ACNB may use its common stock to acquire other companies or make investments in banks and other complementary businesses in the future. ACNB may issue additional shares of common stock to pay for future acquisitions, which would dilute current investors' ownership interest in ACNB. Future business acquisitions could be material to ACNB, and the degree of success achieved in acquiring and integrating these businesses into ACNB could have a material effect on the value of ACNB's common stock. In addition, any acquisition could require it to use substantial cash or other liquid assets or to incur debt. In those events, ACNB could become more susceptible to economic downturns and competitive pressures.

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PENNSYLVANIA BUSINESS CORPORATION LAW AND VARIOUS ANTI-TAKEOVER PROVISIONS UNDER ACNB'S ARTICLES AND BYLAWS COULD IMPEDE THE TAKEOVER OF ACNB.

Various Pennsylvania laws affecting business corporations may have the effect of discouraging offers to acquire ACNB, even if the acquisition would be advantageous to shareholders. In addition, ACNB has various anti-takeover measures in place under its articles of incorporation and bylaws, including a supermajority vote requirement for mergers, a staggered Board of Directors, and the absence of cumulative voting. Any one or more of these measures may impede the takeover of ACNB without the approval of the Board of Directors and may prevent shareholders from taking part in a transaction in which they could realize a premium over the current market price of ACNB common stock.

IF ACNB CONCLUDES THAT THE DECLINE IN VALUE OF ANY OF ITS INVESTMENT SECURITIES IS AN OTHER-THAN-TEMPORARY IMPAIRMENT, ACNB IS REQUIRED TO WRITE DOWN THE VALUE OF THAT SECURITY THROUGH A CHARGE TO EARNINGS.

ACNB reviews its investment securities portfolio at each quarter-end to determine whether the fair value is below the current carrying value. When the fair value of any of its investment securities has declined below its carrying value, ACNB is required to assess whether the decline is an other-than-temporary impairment. If ACNB determines that the decline is an other than temporary impairment, it is required to write down the value of that security through a charge to earnings for credit related impairment. Non-credit related reductions in the value of a security do not require a write down of the value through earnings unless ACNB intends to, or is required to, sell the security. Changes in the expected cash flows related to the credit related piece of the investment of a security in ACNB's investment portfolio or a prolonged price decline may result in ACNB's conclusion in future periods that an impairment is other than temporary, which would require a charge to earnings to write down the security to fair value. Due to the complexity of the calculations and assumptions used in determining whether an asset has an impairment that is other-than-temporary, the impairment disclosed may not accurately reflect the actual impairment in the future.

ACNB IS SUBJECT TO POTENTIAL IMPAIRMENT OF GOODWILL AND INTANGIBLES.

RIG has certain long-lived assets including purchased intangible assets subject to amortization, such as insurance books of business, and associated goodwill assets which are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its future cash flows, an impairment charge is recognized by the amount in which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statement of condition and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. Goodwill, which has an indefinite useful life, is evaluated for impairment annually and is evaluated for impairment more frequently if events and circumstances indicate that the asset might be impaired. During the quarter ended June 30, 2012, the Corporation changed its method of applying ASC Topic 350, *Intangibles Goodwill and Other*, such that the annual goodwill impairment testing date was changed from December 31 to October 1. This new testing date is preferable, because it allows the Corporation more time to accurately complete its impairment testing process, in order to incorporate the results in the annual consolidated financial statements. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The goodwill impairment analysis currently used by the Corporation is a two-step test. The first step, used to identify potential impairment, involves comparing the reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying value, goodwill is

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considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment. If required, the second step involves calculating an implied fair value of goodwill for the reporting unit for which the first step indicated potential impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit to a group of likely buyers whose cash flow estimates could differ from those of the reporting entity, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to the reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. Subsequent reversal of goodwill impairment losses is not permitted. ACNB performs an annual evaluation to determine if there is goodwill impairment.

ACNB IS SUBJECT TO ENVIRONMENTAL LIABILITY RISK ASSOCIATED WITH LENDING ACTIVITIES.

A significant portion of ACNB's banking subsidiary loan portfolio is secured by real property. During the ordinary course of business, ACNB may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, ACNB may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require ACNB to incur substantial expense and may materially reduce the affected property's value or limit ACNB's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase ACNB's exposure to environmental liability. Although ACNB has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on ACNB's financial condition and results of operations.

THE SEVERITY AND DURATION OF A FUTURE DOWNTURN AND THE COMPOSITION OF THE BANKING SUBSIDIARY'S LOAN PORTFOLIO COULD IMPACT THE LEVEL OF LOAN CHARGE-OFFS AND THE PROVISION FOR LOAN LOSSES AND MAY AFFECT ACNB'S NET INCOME OR LOSS.

Lending money is a substantial part of ACNB's business through its banking subsidiary. However, every loan that ACNB makes carries a certain risk of non-payment. ACNB cannot assure that its allowance for loan losses will be sufficient to absorb actual loan losses. ACNB also cannot assure that it will not experience significant losses in its loan portfolio that may require significant increases to the allowance for loan losses in the future.

Although ACNB evaluates every loan that it makes against its underwriting criteria, ACNB may experience losses by reasons of factors beyond its control. Some of these factors include changes in market conditions affecting the value of real estate and unexpected problems affecting the creditworthiness of ACNB's borrowers.

ACNB determines the adequacy of its allowance for loan losses by considering various factors, including:

An analysis of the risk characteristics of various classifications of loans;

Previous loan loss experience;

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Specific loans that would have loan loss potential;

Delinquency trends;

Estimated fair value of the underlying collateral;

Current economic conditions;

The views of ACNB's regulators;

Reports of internal auditors;

Reports of external auditors;

Reports of loan reviews conducted by independent organizations; and,

Geographic and industry loan concentrations.

Local economic conditions could impact the loan portfolio of ACNB. For example, an increase in unemployment, a decrease in real estate values, or increases in interest rates, as well as other factors, could weaken the economies of the communities ACNB serves. Weakness in the market areas served by ACNB could depress the Corporation's earnings and, consequently, its financial condition because:

Borrowers may not be able to repay their loans;

The value of the collateral securing ACNB's loans to borrowers may decline; and/or,

The quality of ACNB's loan portfolio may decline.

Although, based on the aforementioned procedures implemented by ACNB, management believes the current allowance for loan losses is adequate, ACNB may have to increase its provision for loan losses should local economic conditions deteriorate which could negatively impact its financial condition and results of operations.

CHANGES IN REAL ESTATE VALUES MAY ADVERSELY IMPACT ACNB'S BANKING SUBSIDIARY LOANS THAT ARE SECURED BY REAL ESTATE.

A significant portion of ACNB's banking subsidiary loan portfolio consists of residential and commercial mortgages, as well as consumer loans, secured by real estate. These properties are concentrated in Adams County, Pennsylvania. Real estate values and real estate markets generally are affected by, among other things, changes in national, regional or local economic conditions, fluctuations in interest rates, the availability of loans to potential purchasers, changes in the tax laws and other government statutes, regulations and policies, and acts of nature. If real estate prices decline, particularly in ACNB's market area, the value of the real estate collateral securing ACNB's loans could be reduced. This reduction in the value of the collateral could increase the number of non-performing loans and could have a material adverse impact on ACNB's financial condition and results of operations.

ACNB'S INFORMATION SYSTEMS MAY EXPERIENCE AN INTERRUPTION OR BREACH IN SECURITY.

ACNB relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in ACNB's customer relationship management, general ledger, deposit, loan and other systems. While ACNB has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of ACNB's information

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systems could damage ACNB's reputation, result in a loss of customer business, subject ACNB to additional regulatory scrutiny, or expose ACNB to civil litigation and possible financial liability, any of which could have a material adverse effect on ACNB's financial condition and results of operations.

ACNB CONTINUALLY ENCOUNTERS TECHNOLOGICAL CHANGE.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. ACNB's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in ACNB's operations. Many of ACNB's competitors have substantially greater resources to invest in technological improvements. ACNB may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on ACNB's business and, in turn, ACNB's financial condition and results of operations.

FINANCIAL SERVICES COMPANIES DEPEND ON THE ACCURACY AND COMPLETENESS OF INFORMATION ABOUT CUSTOMERS AND COUNTERPARTIES.

In deciding whether to extend credit or enter into other transactions, ACNB may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports, and other financial information. ACNB may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports, or other financial information could have a material adverse impact on ACNB's business and, in turn, ACNB's financial condition and results of operations.

CONSUMERS MAY DECIDE NOT TO USE BANKS TO COMPLETE THEIR FINANCIAL TRANSACTIONS.

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation", could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on ACNB's financial condition and results of operations.

FUTURE ECONOMIC CONDITIONS MAY ADVERSELY AFFECT SECONDARY SOURCES OF LIQUIDITY.

In addition to primary sources of liquidity in the form of deposits and principal and interest payments on outstanding loans and investments, ACNB maintains secondary sources that provide it with additional liquidity. These secondary sources include secured and unsecured borrowings from sources such as the Federal Reserve Bank, Federal Home Loan Bank of Pittsburgh, and third-party commercial banks. However, market liquidity conditions have been negatively impacted by past disruptions in the capital markets and could, in the future, have a negative impact on ACNB's secondary sources of liquidity.

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SEVERE WEATHER, NATURAL DISASTERS, ACTS OF WAR OR TERRORISM, AND OTHER EXTERNAL EVENTS COULD SIGNIFICANTLY IMPACT ACNB'S BUSINESS.

The unpredictable nature of events such as severe weather, natural disasters, acts of war or terrorism, and other adverse external events could have a significant impact on ACNB's ability to conduct business. If any of its financial, accounting, network or other information processing systems fail or have other significant shortcomings due to external events, ACNB could be materially adversely affected. Third parties with which ACNB does business could also be sources of operational risk to ACNB, including the risk that the third parties' own network and information processing systems could fail. Any of these occurrences could materially diminish ACNB's ability to operate one or more of the Corporation's businesses, or result in potential liability to clients, reputational damage, and regulatory intervention, any of which could materially adversely affect ACNB. Such events could affect the stability of ACNB's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, impair ACNB's liquidity, cause significant property damage, and result in loss of revenue, and/or cause ACNB to incur additional expenses.

ACNB may be subject to disruptions or failures of the financial, accounting, network and other information processing systems arising from events that are whole or partially beyond ACNB's control, which may include, for example, computer viruses, electrical or telecommunications outages, natural disasters, disease pandemics, damage to property or physical assets, or terrorist acts. ACNB has developed a comprehensive business continuity plan which includes plans to maintain or resume operations in the event of an emergency, such as a power outage or disease pandemic, and contingency plans in the event that operations or systems cannot be resumed or restored. The business continuity plan is updated as needed, periodically reviewed, and components are regularly tested. ACNB also reviews and evaluates the business continuity plans of critical third-party service providers. While ACNB believes its business continuity plan and efforts to evaluate the business continuity plans of critical third-party service providers help mitigate risks, disruptions or failures affecting any of these systems may cause interruptions in service to customers, damage to ACNB's reputation, and loss or liability to the Corporation.

FUTURE CREDIT DOWNGRADES OF THE UNITED STATES GOVERNMENT DUE TO ISSUES RELATING TO DEBT AND THE DEFICIT MAY ADVERSELY AFFECT ACNB.

As a result of recent difficulties of the federal government to reach agreement over federal debt and issues connected with the debt ceiling, certain rating agencies placed the United States government's long-term sovereign debt rating on their equivalent of negative watch and announced the possibility of a rating downgrade. The rating agencies, due to constraints related to the rating of the United States, also placed government-sponsored enterprises in which ACNB invests and receives lines of credit on negative watch and a downgrade of the United State's credit rating would trigger a similar downgrade in the credit rating of these government sponsored enterprises. Furthermore, the credit rating of other entities, such as state and local governments, may also be downgraded should the United States credit rating be downgraded. The impact that a credit rating downgrade may have on the national and local economy could have an adverse effect on ACNB's financial condition and results of operations.

ACNB'S BANKING SUBSIDIARY MAY BE REQUIRED TO PAY HIGHER FDIC INSURANCE PREMIUMS OR SPECIAL ASSESSMENTS WHICH MAY ADVERSELY AFFECT ITS EARNINGS.

Poor economic conditions and the resulting bank failures have increased the costs of the FDIC and depleted its Deposit Insurance Fund. Additional bank failures may prompt the FDIC to increase its premiums or to issue special assessments. ACNB is generally unable to control the amount of premiums or special assessments that its banking subsidiary is required to pay for FDIC insurance. Any

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future changes in the calculation or assessment of FDIC insurance premiums may have a material adverse effect on ACNB's financial condition and results of operations.

INCOME TAXATION CHANGES COULD HAVE NEGATIVE EFFECTS ON RESULTS OF OPERATIONS AND ASSET VALUES.

Discussions of proposed major overhauls of the federal corporate tax code could result in unknown and unpredictable effects on ACNB's results of operations and value of assets. Proposals that would lower the corporate tax rate and, at the same time, reduce certain deductions from taxable income are aimed to increase overall revenue from corporate taxation. For example, reducing the tax deductibility of state and local government investments and loans would increase income tax expense and could perhaps decrease the value of those assets. Lowering tax rates would decrease the value of certain deferred tax assets. In addition, changes to individual income tax laws could have the effect of lowering demand for important sources of lending and revenue to ACNB, such as residential mortgages.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

ACNB Bank, in addition to its main office in Gettysburg, Adams County, Pennsylvania, had a retail banking office network of eighteen offices at December 31, 2013. Thirteen retail banking offices are located in Adams County, one is located in Cumberland County, and four are located in York County, Pennsylvania. There is also a loan production office situated in Franklin County, Pennsylvania. Bank offices at fifteen locations are owned, while five are leased. All real estate owned by the subsidiary bank is free and clear of encumbrances. RIG has two leased offices located in Carroll County and Montgomery County, Maryland.

ITEM 3 LEGAL PROCEEDINGS

As of December 31, 2013, there were no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which ACNB or its subsidiaries are a party or by which any of their property is the subject. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Corporation or its subsidiaries by governmental authorities.

ITEM 4 MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

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

ACNB Corporation's common stock trades on NASDAQ under the symbol ACNB. At December 31, 2013 and 2012, there were 20,000,000 shares of common stock authorized, 6,053,911 and 6,027,968 shares issued, respectively, and 5,991,311 and 5,965,368 shares outstanding, respectively. As of December 31, 2013, ACNB had approximately 2,388 stockholders of record. At December 31, 2013 and 2012, there were 62,600 shares of treasury stock purchased by the Corporation through the common stock repurchase program approved in October 2008. There have been no shares purchased during the most recent quarter and 57,400 shares can still be purchased under the program. ACNB is restricted as to the amount of dividends that it can pay to stockholders by virtue of the restrictions on the banking subsidiary's ability to pay dividends to ACNB under the Pennsylvania Banking Code, the Federal Deposit Insurance Corporation Act, and the regulations of the FDIC. For further information, please refer to Notes J "Regulatory Restrictions on Dividends" and N "Regulatory Matters" in the Notes to Consolidated Financial Statements.

On May 5, 2009, stockholders approved and ratified the ACNB Corporation 2009 Restricted Stock Plan, effective as of February 24, 2009, in which awards shall not exceed, in the aggregate, 200,000 shares of common stock. As of December 31, 2013, there were no shares of common stock granted as restricted stock awards to either employees or directors. The Corporation's Registration Statement under the Securities Act of 1933 on Form S-8 for the ACNB Corporation 2009 Restricted Stock Plan was filed with the Securities and Exchange Commission on January 4, 2013.

On May 5, 2009, stockholders approved and adopted the amendment to the Articles of Incorporation of ACNB Corporation to authorize up to 20,000,000 shares of preferred stock, par value $2.50 per share. As of December 31, 2013, there were no issued or outstanding shares of preferred stock.

On January 24, 2011, the ACNB Corporation Dividend Reinvestment and Stock Purchase Plan was introduced for stockholders of record. This plan provides registered holders of ACNB Corporation common stock with a convenient way to purchase additional shares of common stock by permitting participants in the plan to automatically reinvest cash dividends on all or a portion of the shares owned and to make quarterly voluntary cash payments under the terms of the plan. Participation in the plan is voluntary, and there are eligibility requirements to participate in the plan. As of December 31, 2013, there were 62,968 shares of common stock issued through the ACNB Corporation Dividend Reinvestment and Stock Purchase Plan.

There have been no unregistered sales of stock in 2013, 2012 or 2011.

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

	Price Range Per Share		Per Share Dividend
	High	**Low**	
2013:			
First Quarter	**$ 17.00**	**$ 16.01**	**$ 0.19**
Second Quarter	**17.00**	**16.26**	**0.19**
Third Quarter	**17.74**	**16.57**	**0.19**
Fourth Quarter	**18.49**	**16.65**	**0.19**
2012:			
First Quarter	$ 15.00	$ 13.73	$ 0.19
Second Quarter	14.98	14.25	0.19
Third Quarter	15.99	14.06	0.19
Fourth Quarter	16.75	15.34	0.19

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Total Return Performance

	Period Ending					
Index	**12/31/2008**	**12/31/2009**	**12/31/2010**	**12/31/2011**	**12/31/2012**	**12/31/2013**
ACNB Corporation	100.00	111.41	142.40	132.12	162.53	189.58
NASDAQ Composite	100.00	145.36	171.74	170.38	200.63	281.22
Mid-Atlantic Custom Peer Group*	100.00	93.85	102.75	102.43	119.35	143.98

*

Mid-Atlantic Custom Peer Group consists of Mid-Atlantic commercial banks with assets less than $1B as of September 30, 2013, and indicated below. Source: SNL Financial LC, Charlottesville, VA

Company	**City**	**State**	**Company**	**City**	**State**
1st Colonial Bancorp, Inc.	Collingswood	NJ	Community Financial Corporation	Waldorf	MD
1st Constitution Bancorp	Cranbury	NJ	Community First Bank	Somerset	NJ
1st Summit Bancorp of Johnstown, Inc.	Johnstown	PA	Community National Bank	Great Neck	NY
Absecon Bancorp	Absecon	NJ	County First Bank	La Plata	MD
Allegheny Valley Bancorp, Inc.	Pittsburgh	PA	Damascus Community Bank	Damascus	MD
American Bank Incorporated	Allentown	PA	Delhi Bank Corp.	Delhi	NY
Apollo Bancorp, Inc.	Apollo	PA	Delmar Bancorp	Salisbury	MD
Ballston Spa Bancorp, Inc.	Ballston Spa	NY	Dimeco, Inc.	Honesdale	PA
Bancorp of New Jersey, Inc.	Fort Lee	NJ	DNB Financial Corporation	Downingtown	PA
Bank of Akron	Akron	NY	Elmer Bancorp, Inc.	Elmer	NJ
Bank of Utica	Utica	NY	Elmira Savings Bank	Elmira	NY
Bay Bancorp, Inc.	Lutherville	MD	Embassy Bancorp, Inc.	Bethlehem	PA
BCSB Bancorp, Inc.	Baltimore	MD	Emclaire Financial Corp.	Emlenton	PA
Berkshire Bancorp Inc.	New York	NY	Empire National Bank	Islandia	NY
Brunswick Bancorp	New Brunswick	NJ	ENB Financial Corp	Ephrata	PA
Calvin B. Taylor Bankshares, Inc.	Berlin	MD	Enterprise National Bank N.J.	Kenilworth	NJ
Carroll Bancorp, Inc.	Sykesville	MD	ES Bancshares, Inc.	Newburgh	NY
CB Financial Services, Inc.	Carmichaels	PA	Evans Bancorp, Inc.	Hamburg	NY
CBT Financial Corporation	Clearfield	PA	Fairmount Bancorp, Inc.	Baltimore	MD
CCFNB Bancorp, Inc.	Bloomsburg	PA	Farmers and Merchants Bank	Upperco	MD
Cecil Bancorp, Inc.	Elkton	MD	Fidelity D & D Bancorp, Inc.	Dunmore	PA

Chesapeake Bancorp	Chestertown	MD	First Bank	Hamilton	NJ
Citizens Financial Services, Inc.	Mansfield	PA	First Keystone Corporation	Berwick	PA
Citizens National Bank of Meyersdale	Meyersdale	PA	First National Bank of Groton	Groton	NY
Clarion County Community Bank	Clarion	PA	First National Community Bancorp, Inc.	Dunmore	PA
Colonial American Bank	Middletown	NJ	First Resource Bank	Exton	PA

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Company	City	State	Company	City	State
Commercial National Financial Corporation	Latrobe	PA	Fleetwood Bank Corporation	Fleetwood	PA
Community Bank of Bergen County, NJ	Maywood	NJ	FNB Bancorp, Inc.	Newtown	PA
FNBM Financial Corporation	Minersville	PA	National Bank of Coxsackie	Coxsackie	NY
FNBPA Bancorp, Inc.	Port Allegany	PA	National Capital Bank of Washington	Washington	DC
Frederick County Bancorp, Inc.	Frederick	MD	Neffs Bancorp, Inc.	Neffs	PA
Glen Burnie Bancorp	Glen Burnie	MD	New Jersey Community Bank	Freehold	NJ
GNB Financial Services, Inc.	Gratz	PA	New Millennium Bank	New Brunswick	NJ
Greater Hudson Bank, National Association	Middletown	NY	New Tripoli Bancorp, Inc.	New Tripoli	PA
Hamlin Bank and Trust Company	Smethport	PA	Northumberland Bancorp	Northumberland	PA
Harford Bank	Aberdeen	MD	Norwood Financial Corp.	Honesdale	PA
Harmony Bank	Jackson	NJ	Orange County Bancorp, Inc.	Middletown	NY
Harvest Community Bank	Pennsville	NJ	Parke Bancorp, Inc.	Sewell	NJ
Highlands Bancorp, Inc.	Vernon	NJ	Peoples Bancorp, Inc.	Chestertown	MD
Honat Bancorp, Inc.	Honesdale	PA	Peoples Financial Services Corp.	Scranton	PA
Hopewell Valley Community Bank	Pennington	NJ	Peoples Limited	Wyalusing	PA
Howard Bancorp, Inc.	Ellicott City	MD	PSB Holding Corporation	Preston	MD
IBW Financial Corporation	Washington	DC	Putnam County National Bank of Carmel	Carmel	NY
Integrity Bancshares, Inc.	Camp Hill	PA	QNB Corp.	Quakertown	PA
Jeffersonville Bancorp	Jeffersonville	NY	Republic First Bancorp, Inc.	Philadelphia	PA
Jonestown Bank and Trust Co.	Jonestown	PA	Riverview Financial Corporation	Halifax	PA
JTNB Bancorp, Inc.	Jim Thorpe	PA	Royal Bancshares of Pennsylvania, Inc.	Narberth	PA
Juniata Valley Financial Corp.	Mifflintown	PA	Rumson-Fair Haven Bank & Trust Co.	Rumson	NJ
Kinderhook Bank Corporation	Kinderhook	NY	Scottdale Bank & Trust Company	Scottdale	PA
Kish Bancorp, Inc.	Reedsville	PA	Shore Community Bank	Toms River	NJ
Landmark Bancorp, Inc.	Pittston	PA	Solvay Bank Corporation	Solvay	NY
Liberty Bell Bank	Marlton	NJ	Somerset Trust Holding Company	Somerset	PA
Lyons Bancorp, Inc.	Lyons	NY	Stewardship Financial Corporation	Midland Park	NJ
Manor Bank	Manor	PA	Sussex Bancorp	Franklin	NJ
Marlin Business Services Corp.	Mount Laurel	NJ	Turbotville National Bancorp, Inc.	Turbotville	PA
Mars National Bank	Mars	PA	Two River Bancorp	Tinton Falls	NJ
Mauch Chunk Trust Financial Corp.	Jim Thorpe	PA	UNB Corporation	Mount Carmel	PA
Mid Penn Bancorp, Inc.	Millersburg	PA	Unity Bancorp, Inc.	Clinton	NJ
Mifflinburg Bank & Trust Company	Mifflinburg	PA	VSB Bancorp, Inc.	Staten Island	NY
MNB Corporation	Bangor	PA	West Milton Bancorp, Inc.	West Milton	PA
Muncy Bank Financial, Inc.	Muncy	PA	Woodlands Financial Service Company	Williamsport	PA

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ITEM 6 SELECTED FINANCIAL DATA

	For the Year Ended December 31,				
Dollars in thousands, except per share data	**2013**	**2012**	**2011**	**2010**	**2009**
INCOME STATEMENT DATA					
Interest income	**$ 37,601**	$ 40,439	$ 41,832	$ 44,640	$ 45,812
Interest expense	**3,989**	6,095	7,462	9,623	13,560
Net interest income	**33,612**	34,344	34,370	35,017	32,252
Provision for loan losses	**1,450**	4,675	5,435	6,410	4,750
Net interest income after provision for loan losses	**32,162**	29,669	28,935	28,607	27,502
Other income	**11,703**	11,867	11,737	12,172	11,703
Other expenses	**32,015**	30,331	30,016	30,303	30,629
Income before income taxes	**11,850**	11,205	10,656	10,476	8,576
Applicable income taxes	**2,535**	2,319	2,154	2,057	1,357
Net income	**$ 9,315**	$ 8,886	$ 8,502	$ 8,419	$ 7,219
BALANCE SHEET DATA (AT YEAR-END)					
Assets	**$ 1,046,047**	$ 1,049,995	$ 1,004,823	$ 968,667	$ 961,904
Securities	**$ 224,356**	$ 215,949	$ 219,259	$ 200,774	$ 219,929
Loans, net	**$ 712,557**	$ 691,311	$ 678,986	$ 650,039	$ 632,706
Deposits	**$ 800,643**	$ 834,176	$ 782,795	$ 746,526	$ 728,523
Borrowings	**$ 131,755**	$ 107,257	$ 117,153	$ 120,585	$ 135,585
Stockholders' equity	**$ 106,802**	$ 101,264	$ 97,474	$ 93,754	$ 88,303
COMMON SHARE DATA					
Earnings per share basic	**$ 1.56**	$ 1.49	$ 1.43	$ 1.42	$ 1.22
Cash dividends paid	**$ 0.76**	$ 0.76	$ 0.76	$ 0.76	$ 0.76
Book value per share	**$ 17.83**	$ 16.98	$ 16.39	$ 15.81	$ 14.90
Weighted average number of common shares	**5,976,960**	5,953,723	5,936,030	5,928,343	5,936,001
Dividend payout ratio	**48.76%**	50.91%	53.15%	53.52%	62.50%
PROFITABILITY RATIOS AND CONDITION					
Return on average assets	**0.90%**	0.86%	0.85%	0.86%	0.75%
Return on average equity	**9.00%**	8.91%	8.80%	9.15%	8.34%
Average stockholders' equity to average assets	**9.95%**	9.61%	9.72%	9.40%	8.99%
SELECTED ASSET QUALITY RATIOS					
Non-performing loans to total loans	**1.44%**	1.00%	2.02%	2.35%	2.39%
Net charge-offs to average loans outstanding	**0.31%**	0.48%	0.77%	0.47%	0.03%
Allowance for loan losses to total loans	**2.21%**	2.38%	2.23%	2.29%	1.86%

Allowance for loan losses to non-performing loans	**153.26%**	237.04%	110.29%	97.43%	77.72%

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

INTRODUCTION

The following is management's discussion and analysis of the significant changes in the financial condition, results of operations, comprehensive income, 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.

CRITICAL ACCOUNTING POLICIES

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

The allowance for loan losses represents management's estimate of probable losses inherent in the loan portfolio. Management makes numerous assumptions, estimates and adjustments in determining an adequate allowance. The Corporation assesses the level of potential loss associated with its loan portfolio and provides for that exposure through an allowance for loan losses. The allowance is established through a provision for loan losses charged to earnings. The allowance is an estimate of the losses inherent in the loan portfolio as of the end of each reporting period. The Corporation assesses the adequacy of its allowance on a quarterly basis. The specific methodologies applied on a consistent basis are discussed in greater detail under the caption, *Allowance for Loan Losses*, in a subsequent section of this 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 the length of time the fair value has been below cost, the financial condition of the issuer, and the Corporation's intent to sell, or requirement to sell, the security before recovery of its value. Declines in fair value that are determined to be other than temporary are charged against earnings.

Accounting Standards Codification (ASC) Topic 350, *Intangibles Goodwill and Other,* requires that goodwill is not amortized to expense, but rather that it be assessed or 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 October 1, 2013. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. During the quarter ended June 30, 2012, the Corporation changed its method of applying ASC Topic 350 such that the annual goodwill impairment testing date was changed from December 31 to October 1. This new testing date is preferable under the circumstances, because it allows the Corporation more time to accurately complete its impairment testing process in order to incorporate the results in the annual consolidated financial statements. Other acquired intangible assets with finite lives, such as customer lists, are required to be amortized over the estimated lives. These intangibles are generally amortized using the straight line method over estimated useful lives of ten years.

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The Corporation recognizes deferred tax assets and liabilities for the future effects of temporary differences and tax credits. Enacted tax rates are applied to cumulative temporary differences based on expected taxable income in the periods in which the deferred tax asset or liability is anticipated to be realized. Future tax rate changes could occur that would require the recognition of income or expense in the consolidated statements of income in the period in which they are enacted. Deferred tax assets must be reduced by a valuation allowance if in management's judgment it is "more likely than not" that some portion of the asset will not be realized. Management may need to modify their judgments in this regard from one period to another should a material change occur in the business environment, tax legislation, or in any other business factor that could impair the Corporation's ability to benefit from the asset in the future.

EXECUTIVE OVERVIEW

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

The Corporation's overall strategy is to increase loan growth in local markets, while maintaining a reasonable funding base by offering competitive deposit products and services. The year 2013 continued to be challenging for many financial institutions with new expensive compliance regulations, slowly recovering housing markets, lingering high unemployment, and slow uneven growth. ACNB continued to be profitable and well capitalized despite expenses elevated from the aftershocks of this unprecedented challenge to the United States economy. Lower provision for loan losses offset declining revenues resulting in increased net income of $9,315,000, or $1.56 per share, in 2013, compared to $8,886,000, or $1.49 per share, in 2012 and $8,502,000, or $1.43 per share, in 2011. Returns on average equity were 9.00%, 8.91% and 8.80% in 2013, 2012 and 2011, respectively.

Because funding costs were near practical floors, they could not be decreased at the same rate as earning asset decreases; therefore, the Corporation's net interest margin decreased to 3.48% in 2013, compared to 3.56% and 3.74% in 2012 and 2011, respectively. Net interest income was $33,612,000 in 2013, as compared to $34,344,000 in 2012 and $34,370,000 in 2011.

Other income was $11,703,000, $11,867,000 and $11,737,000 in 2013, 2012 and 2011, respectively. The largest source of other income is commissions from insurance sales from Russell Insurance Group, Inc. (RIG), which decreased by 3.4% in 2013 to $4,671,000, slowed by the effects of lower contingent commissions and reduced commercial insurance volume due to continued weak economic conditions. In 2013, no gains or losses were recognized on sold or called investments compared to net gains of $7,000 in 2012 and $1,000 in 2011. Income from fiduciary activities totaled $1,299,000 for 2013, as compared to $1,224,000 for 2012 and $1,396,000 for 2011. Trust fiduciary income increased from improved market values and new account relationships. Service charges on deposit accounts decreased 7.7% to $2,246,000 for 2013 due to changes in customer behaviors, while revenue from ATM and debit card transactions increased 11.1% to $1,434,000 due to higher volume.

Other expenses increased to $32,015,000, or by 5.6%, in 2013, as compared to $30,331,000 in 2012. Other expenses totaled $30,016,000 in 2011. The largest component of other expenses is salaries and employee benefits, which increased 2.1% to $18,950,000 in 2013 compared to $18,553,000 in 2012, due to higher employee retirement expenses, merit increases, and the increased cost of benefits. Compared to 2012, occupancy expense increased 0.3% in 2013 due to normal maintenance, and equipment expense increased 11.4% from an outsourced processing conversion in 2013. Professional services expense increased 8.5% due to higher problem loan-related legal expenses and regulatory compliance costs in 2013. Marketing and corporate relations expense increased by 6.5% due to product specific campaigns and brand awareness activities. FDIC and regulatory expense decreased by 8.9%; however, it

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is still a significant expense as the result of a requirement of all FDIC-insured banks to restore and maintain the Deposit Insurance Fund due to protecting depositors' accounts. In 2013, foreclosed real estate expenses increased $695,000 or 585.2% on final sale losses from physical deterioration while attempting to gain physical control of the subject properties. A more thorough discussion of the Corporation's results of operations is included in the following pages.

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 interest bearing deposits with banks. Interest bearing liabilities include deposits and borrowings.

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

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

Table 1 Average Balances, Rates and Interest Income and Expense

	2013			2012			2011		
Dollars in thousands	**Average Balance**	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**
INTEREST EARNING ASSETS									
Loans	**$ 711,841**	**$ 32,084**	**4.51%**	$ 701,243	$ 33,990	4.85%	$ 674,897	$ 34,493	5.11%
Taxable securities	**186,900**	**4,230**	**2.26%**	178,783	4,876	2.73%	184,642	6,006	3.25%
Tax-exempt securities	**41,597**	**1,197**	**2.88%**	45,952	1,457	3.17%	33,681	1,252	3.72%
Total Securities	**228,497**	**5,427**	**2.38%**	224,735	6,333	2.82%	218,323	7,258	3.32%
Other	**25,107**	**90**	**0.36%**	37,907	116	0.31%	26,826	81	0.30%
Total Interest Earning Assets	**965,445**	**37,601**	**3.89%**	963,885	40,439	4.20%	920,046	41,832	4.55%
Cash and due from banks	**13,663**			13,197			13,556		
Premises and equipment	**14,603**			14,302			13,898		
Other assets	**63,099**			62,345			62,301		
Allowance for loan losses	**(17,072)**			(15,761)			(15,369)		
Total Assets	**$ 1,039,738**			$ 1,037,968			$ 994,432		
LIABILITIES AND STOCKHOLDERS' EQUITY									
INTEREST BEARING LIABILITIES									
Interest bearing demand deposits	**$ 183,341**	**$ 140**	**0.08%**	$ 165,569	$ 139	0.08%	$ 138,242	$ 115	0.08%
Savings deposits	**260,093**	**197**	**0.08%**	243,050	280	0.12%	230,221	354	0.15%
Time deposits	**251,312**	**1,840**	**0.73%**	282,568	3,022	1.07%	292,381	3,988	1.36%
Total Interest Bearing Deposits	**694,746**	**2,177**	**0.31%**	691,187	3,441	0.50%	660,844	4,457	0.67%
Short-term borrowings	**53,184**	**61**	**0.11%**	48,300	76	0.16%	43,124	91	0.21%
Long-term borrowings	**55,311**	**1,751**	**3.17%**	74,942	2,578	3.44%	76,776	2,914	3.80%
Total Interest Bearing Liabilities	**803,241**	**3,989**	**0.50%**	814,429	6,095	0.75%	780,744	7,462	0.96%
Non-interest bearing demand deposits	**126,047**			116,507			109,070		
Other liabilities	**6,969**			7,255			8,005		
Stockholders' equity	**103,481**			99,777			96,613		

Total Liabilities and Stockholders' Equity	**$ 1,039,738**	$ 1,037,968	$ 994,432
NET INTEREST INCOME	**$ 33,612**	$ 34,344	$ 34,370
INTEREST RATE SPREAD	**3.39%**	3.45%	3.59%
NET INTEREST MARGIN	**3.48%**	3.56%	3.74%

For yield calculation purposes, nonaccruing loans are included in average loan balances. Loan fees of $154,000, $6,000 and $48,000 as of December 31, 2013, 2012 and 2011, respectively, are included in interest income. Yields on tax-exempt securities and loans 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, 2013, 2012 and 2011. Table 2 analyzes the relative impact on net interest income for changes in the volume of interest earning assets and interest bearing liabilities and changes in rates earned and paid by the Corporation on such assets and liabilities.

Net interest income totaled $33,612,000 in 2013, as compared to $34,344,000 in 2012 and $34,370,000 in 2011. During 2013, net interest income decreased as a result of lower interest income exceeding lower funding cost due to the inability to lower deposit rates further after several years of

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continued record low interest rates. The decrease in net interest income in 2012 was also due to declines in rates on earning assets exceeding the ability to decrease low deposit rates.

The net interest margin during 2013 was 3.48% compared to 3.56% during 2012. The margin decreased due to continued decreasing earning asset yields that exceeded decreasing funding costs from lower rates on new or renewed time deposits and lower market rates on savings products. The Federal Open Market Committee repeatedly decreased the federal funds rate from September 2007 to December 2008 and has maintained it at 0% to 0.25% since that time. In addition, the Federal Reserve Bank has embarked on various programs referred to as Quantitative Easing which, in effect, attempted to lower rates on longer term portions of the yield curve. These decreases allowed interest rate reductions on lower-cost transactional deposit products and higher-cost certificates of deposit; the result was a 0.25% decrease in funding costs in 2013. Overtaking the benefit of a lower cost of funds in 2013, however, was earning asset yields decreasing 0.31% from declines in the investment portfolio as new purchases were at lower rates, as well as declines in the loan portfolio from new originations at lower market rates and existing adjustable-rate loans resetting at lower rates based on declines in index rates. The decreased earning asset yields in 2012 were 0.35% compared to funding cost declines of 0.21%. Maintaining the net interest margin going forward will be challenged by the fact that substantial amounts of deposits are at practical rate floors, while loans and the investment securities portfolio will most likely continue to decrease in yields. The cost and availability of wholesale funding could also be affected by a variety of internal and external factors resulting from interest rate market factors and the creditworthiness of the Corporation and the credit providers.

Average earning assets were $965,445,000 in 2013, an increase of 0.2% from the balance of $963,885,000 in 2012, which was an increase from $920,046,000 in 2011. Loan growth represented the largest increase in average assets in 2013, 2012 and 2011, along with smaller increases in the investment portfolio in those years. Average interest bearing liabilities were $803,241,000 in 2013, down from $814,429,000 in 2012 and up from $780,774,000 in 2011. Average non-interest bearing demand deposits increased 8.2% in 2013, continuing the upward trend for 2012 and 2011. This increase was attributed to new relationships and the value placed on stability and FDIC insurance by depositors. On average, deposits (including non-interest bearing) were up 1.6%, while borrowings decreased by 12.0% due to paying off maturing Federal Home Loan Bank (FHLB) advances in the first half of 2013. Lower-cost transaction and savings deposits grew while time deposits decreased in 2013, continuing a trend started in 2008. This lower time deposit trend is attributed to depositors dissatisfied by the Federal Reserve-induced low rate environment and perhaps investing in equity markets that generally increased in value during 2013.

The rate/volume analysis detailed in Table 2 shows that the decrease in net interest income in 2013 was due to earning asset rate decreases exceeding funding cost rate decreases. Earning asset yields declined due to new purchases at lower rates in the investment portfolio and declines in the loan portfolio from existing adjustable-rate loans resetting at lower rates and new lower-rate originations replacing loan amortizations at higher rates. In 2013, the decrease in interest income was 34.8% higher than the decrease in interest expense. Interest expense decreased due to less time deposit and borrowed fund volume, as well as decreases as a result of changes in rates for all interest bearing liability categories.

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

Table 2 Rate/Volume Analysis

	2013 versus 2012			2012 versus 2011		
	Due to Changes in			Due to Changes in		
In thousands	Volume	Rate	Total	Volume	Rate	Total
INTEREST EARNING ASSETS						
Loans	**$ 507**	**$ (2,413)**	**$ (1,906)**	$ 1,317	$ (1,820)	$ (503)
Taxable securities	**213**	**(859)**	**(646)**	(186)	(944)	(1,130)
Tax-exempt securities	**(132)**	**(128)**	**(260)**	408	(203)	205
Total Securities	**81**	**(987)**	**(906)**	222	(1,147)	(925)
Other	**(44)**	**18**	**(26)**	34	1	35
Total	**$ 544**	**$ (3,382)**	**$ (2,838)**	$ 1,573	$ (2,966)	$ (1,393)
INTEREST BEARING LIABILITIES						
Interest bearing demand deposits	**$ 14**	**$ (13)**	**$ 1**	$ 23	$ 1	$ 24
Savings deposits	**18**	**(101)**	**(83)**	19	(93)	(74)
Time deposits	**(307)**	**(875)**	**(1,182)**	(130)	(836)	(966)
Short-term borrowings	**7**	**(22)**	**(15)**	10	(25)	(15)
Long-term borrowings	**(634)**	**(193)**	**(827)**	(68)	(268)	(336)
Total	**(902)**	**(1,204)**	**(2,106)**	(146)	(1,221)	(1,367)
Change in Net Interest Income	**$ 1,446**	**$ (2,178)**	**$ (732)**	$ 1,719	$ (1,745)	$ (26)

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 $1,450,000 in 2013, as compared to $4,675,000 in 2012 and $5,435,000 in 2011. The decrease was a result of the analysis of the adequacy of the allowance for loan losses. More specifically, even though nonaccrual loans increased, provision expense decreased due to the scaling back of the unallocated portion of the allowance in proportion to substandard loans as a result of management's analysis, based on independent appraisals, that adequate collateralization exists for substandard loans in accordance with GAAP. Each quarter, the Corporation assesses risk in the loan portfolio compared with the balance in the allowance for loan losses and the current evaluation factors.

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

Other Income

Other income was $11,703,000 for the year ended December 31, 2013, a $164,000, or 1.4%, decrease from 2012. Other income was $11,867,000 for the year ended December 31, 2012, a $130,000, or 1.1%, increase from 2011. The largest source of other income is commissions from insurance sales from RIG, which decreased 3.4% to $4,671,000 in 2013, and was stable from 2012 to 2011. The decrease was due to lost customers in continued weak economic conditions and lower contingent commission payments from insurance carriers. These contingent, or extra, commissions are mostly received in the first quarter of each year, and the amount is at the discretion of various insurance

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carriers in accordance with applicable insurance regulations. Heightened pressure on commissions is expected to continue in this business line, and contingent commissions are not predictable.

In 2013, no gains or losses were recognized on sold or called securities compared to gains of $7,000 and $1,000 in 2012 and 2011, respectively. Income from fiduciary activities, which includes fees from both institutional and personal trust and investment management services and estate settlement services, totaled $1,299,000 for the year ended December 31, 2013, as compared to $1,224,000 for 2012 and $1,396,000 for 2011. At December 31, 2013, ACNB had total assets under administration of approximately $151,000,000, compared to $141,000,000 at the end of 2012 and $135,000,000 at the end of 2011. The variations in income were in part due to more assets under management in 2013 and the result of higher estate settlement income in 2011 which varies with specific activity.

Service charges on deposit accounts decreased 7.7% to $2,246,000, after increasing 0.6% in 2012, based upon varying customer actions that affect the volume of fees. Further, certain government regulations and policies effective since 2010 limited service charge increases and make future revenue levels uncertain. Revenue from ATM and debit card transactions increased 11.1% to $1,434,000 due to higher volume. The increase resulted from more consumer desire to use electronic delivery channels; however, regulations or legal challenges for large financial institutions may impact industry pricing for such transactions in future periods, the effect of which cannot be currently quantified. Another more recent threat to this revenue source is the security breaches in the merchant base that can affect consumer confidence in the debit card channel. Fee income from sold mortgages increased by $134,000, or 45.0%, to $430,000 in 2013; however, approximately 82% of this income was earned in the first half of 2013 after which new originations markedly decreased with increased interest rates. This revenue source is projected to be significantly lower in 2014 compared to 2013.

Impairment Testing

RIG has certain long-lived assets, including purchased intangible assets subject to amortization such as insurance books of business, and associated goodwill assets, which are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statement of condition and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

Goodwill, which has an indefinite useful life, is evaluated for impairment annually and is evaluated for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. Recent changes to accounting rules permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The goodwill impairment analysis currently used by the Corporation is a two-step test. The first step, used to identify potential impairment, involves comparing the reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds the estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment. If required, the second step involves calculating an implied fair value of goodwill for the reporting unit for which the first step indicated potential impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit to a group of likely buyers whose cash flow estimates could differ from those of the reporting entity, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable

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intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to the reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. Subsequent reversal of goodwill impairment losses is not permitted.

During the quarter ended June 30, 2012, the Corporation changed its method of applying ASC Topic 350 such that the annual goodwill impairment testing date was changed from December 31 to October 1. This new testing date is preferable in the circumstances, because it allows the Corporation more time to accurately complete its impairment testing process, in order to incorporate the results in the annual consolidated financial statements.

As noted above, commissions from insurance sales were down 3.4% in 2013, and RIG's stand alone net income decreased in 2013 compared to 2012 because of the fixed nature of some expense categories. The testing for potential impairment involves methods that include both current and projected income amounts, and RIG's fair value remained above the carrying value as of the most recent annual impairment test date. Thus, the results of the annual evaluations determined that there was no impairment of goodwill, including the testing at October 1, 2013. However, further declines in RIG's net income or changes in external market factors, including likely buyers that are assumed in impairment testing, may require an impairment charge to goodwill. Should it be determined in a future period that the goodwill has been impaired, then a charge to earnings will be recorded in the period that such a determination is made.

Other Expenses

Other expenses increased 5.6% to $32,015,000 for the year ended December 31, 2013. The largest component of other expenses is salaries and employee benefits, which increased 2.1% in 2013 to $18,950,000 compared to $18,553,000 in 2012, and increased $1,415,000, or 8.3%, from 2011 to 2012. The reasons for the increase in salaries and employee benefits expenses include the following:

- higher employee benefit plan costs, including health insurance;
- higher production-based commissions and incentives;
- increases related to 401(k) plan and non-qualified retirement plan benefits;
- normal merit increases to employees and associated payroll taxes; and,
- offset, to some degree, by decreased defined benefit pension expense due to improved prior year plan investment performance that offset continued historic low discount rates that increase the liabilities for future obligations.

The Corporation reduced the benefit formula for the defined benefit pension plan effective January 1, 2010, in order to manage total benefit costs. Subsequently, the Corporation amended the defined benefit pension plan effective April 1, 2012, in that no employee hired after March 31, 2012, shall be eligible to participate in the Plan and no inactive or former plan participant shall be eligible to again participate in the Plan. The Corporation's overall pension plan investment strategy is to achieve a mix of investments to meet the long-term rate of return assumption and near-term pension obligations with a diversification of asset types, fund strategies, and fund managers. The mix of investments is adjusted periodically by retaining an advisory firm to recommend appropriate allocations after reviewing the Corporation's risk tolerance on contribution levels, funded status, plan expense, as well as any applicable regulatory requirements. However, the determination of future benefit expense is also dependent on the fair value of assets and the discount rate on the year-end measurement date, which in recent years has experienced fair value volatility and low discount rates. The expense will be lower in 2014 due to a higher discount rate at the latest measurement date and better plan return in 2013. A

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pension provision in a public law known as MAP-21, enacted in July 2012, had no effect on reducing the GAAP expense associated with the plan. In addition, the ACNB plan has maintained a well-funded status.

Net occupancy expense was stable at $1,957,000 in 2013, $1,952,000 in 2012, and $2,043,000 in 2011. Equipment expense totaled $2,826,000 during 2013, as compared to $2,537,000 during 2012 and $2,620,000 during 2011. Occupancy expense was stable in 2013 due to cost control management; however, equipment expense increased in 2013 due to replacement and upgrades of information devices that are expensed and to the conversion to a new system to process debit card and ATM transaction. Equipment expense is subject to ever increasing technology demands and the need for system upgrades for security and reliability purposes. The majority of the expense decrease in 2012 from 2011 was the result of varying amounts of technology upgrades.

Professional services expense totaled $895,000 for 2013, as compared to $825,000 for 2012 and $911,000 for 2011. The variation in expense from year to year included varying legal costs associated with problem loans, as well as the expense of heightened compliance monitoring on existing regulations and the expense of implementing new regulations including the Dodd-Frank Act. Other tax expense increased 8.2% in 2013 compared to 2012 due to an increased capital base at the Bank. Supplies and postage expense decreased in 2013 compared to the two prior years due to customers' increased use of electronic channels.

Marketing and corporate relations expense increased 6.5% during 2013 due to higher promotional and public relations expenditures. In 2012, this expense category was 22.2% lower than in 2011 due to more use of internal production resources and higher expenses in 2011 related to a new retail banking office.

FDIC and regulatory expense for 2013 was $768,000, a decrease of $75,000 from $843,000 in 2012. FDIC and regulatory expense in 2011 was $1,026,000. FDIC expense varies with changes in net asset size, risk ratings, and FDIC derived assessment rates.

Foreclosed assets held for resale consist of the fair value of real estate acquired through foreclosure on real estate loan collateral or the acceptance of ownership of real estate in lieu of the foreclosure process. Fair values are based on appraisals that consider the sales prices of similar properties in the proximate vicinity less estimated selling costs. Foreclosed real estate expenses (income) were $576,000, $(119,000) and $725,000 for the years ended December 31, 2013, 2012 and 2011, respectively. The net recovery in 2012 was on two properties that sold for more than the values after prior write-downs. The higher expense in 2013 was a result of properties that suffered decreases in value after acquisition (requiring write-downs to fair value) during prolonged marketing cycles for these distressed properties and, in some cases, during which the debtor remained in physical possession while eviction actions were contested and finally executed. Values are written down based upon updated appraisals less selling costs (which in the often extended marketing periods can create multiple year expenses) and other fair value adjustments, or in some cases properties are written down based on sales agreements that do not subsequently close. In all, the historically high costs consisted of these write-downs and other costs to carry and was due to the increased number and varying mix of commercial and residential collateral for which such carrying costs include insurance, property maintenance, unpaid and ongoing property taxes, and deferred maintenance required upon acquisition.

Other operating expense increased 8.0% in 2013 as a result of upgrades in data channels and heightened corporate governance and risk management expenditures. Other operating expense increased 9.0% in 2012 from 2011 mainly as a result of costs associated with corporate governance, communications, and the Bank's legal responsibility to reimburse customers in electronic transactions disputes even when another party is at fault.

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Provision for Income Taxes

ACNB recognized income taxes of $2,535,000, or 21.4% of pretax income, during 2013, as compared to $2,319,000, or 20.7%, during 2012 and $2,154,000, or 20.2%, during 2011. The variances from the federal statutory rate are generally due to tax-exempt income (from investments in and loans to state and local units of government at below-market rates, an indirect form of taxation) and investments in low-income housing partnerships (which qualify for federal tax credits). Tax-exempt investments have been allowed to run off due to concerns of interest rate risk related to these investments.

The increasing effective tax rate during 2013, 2012, and 2011 was a result of increasing pretax income in relationship to declining tax-exempt income. Pretax income increased in each year due to revenue and expense elements described above.

At December 31, 2013, net deferred tax assets amounted to $930,000. Deferred tax assets are realizable primarily through future reversal of existing taxable temporary differences. Management currently anticipates future earnings and capital gains will be adequate to utilize deferred tax assets. Accordingly, no valuation allowance has been established for deferred tax assets at December 31, 2013.

FINANCIAL CONDITION

Average earning assets increased in 2013 to $965,445,000, or by 0.2%, from $963,885,000 in 2012 following $920,046,000 in 2011. ACNB's investment portfolio increased in 2013 on average, as less funds were allocated into liquid short-term investment of Federal Reserve Bank balances. Investments increased in both 2012 and 2011 from deposit growth. Loans increased 1.5% and 3.9% on average in 2013 and 2012, respectively. Growth in loans was funded by increased customer deposits. Average deposits increased in 2013 to $820,793,000 from $807,694,000 in 2012 and $769,914,000 in 2011. Average borrowings decreased in 2013 to $108,495,000 from $123,242,000 in 2012 and $119,900,000 in 2011. Fluctuations in borrowings are mainly in local customer repurchase accounts, which are akin to deposits.

Investment Securities

ACNB uses investment securities to generate interest and dividend income, manage interest rate risk, provide collateral for certain funding products, and provide liquidity. The increase in the securities portfolio in 2013 was mainly to deploy Federal Reserve balances into a more suitable allocation to investment balances that combined the desired combination of yield, liquidity, and manageable interest rate risk sensitivity. Investing into investment security portfolio assets was made more challenging due to the Federal Reserve's program commonly called Quantitative Easing in which, by the Federal Reserve's open market purchases, the yields are maintained at a lower level than would otherwise be the case. The mix in the securities portfolio during 2012 was changed to deploy growth in deposits into a more suitable allocation to Federal Reserve balances based on the composition of the deposit increases. The investment portfolio is comprised of U.S. Government agency, municipal, and corporate securities. These securities provide the appropriate characteristics with respect to credit quality, yield and maturity relative to the management of the overall balance sheet.

At December 31, 2013, the securities balance included a net unrealized gain on available for sale securities of $2,572,000, net of taxes, on amortized cost of $126,090,000 versus a net unrealized gain of $5,614,000, net of taxes, on amortized cost of $157,288,000 at December 31, 2012. The decrease in fair value of available for sale securities during 2013 was a result of a lower amount of investments in the available for sale portfolio, as well as an increase in the U.S. Treasury yield curve rates and the spread from this yield curve required by investors on the types of investment securities that ACNB owns. More specifically, comments by Federal Reserve Chairman Bernanke in late second quarter of 2013 caused a sharp spike in market rates which, in turn, lowered the value of most securities already owned.

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Previously, actions by the Federal Reserve to lower rates on the yield curve most conducive to stimulating the housing market and to boost employment and consumption offset the bond markets' concern about the level of U.S. debt and inflation, leading to generally lower rates on the yield curve. However, fair values were volatile on any given day in 2013 and up to the present.

At December 31, 2013, the securities balance included held to maturity securities with an amortized cost of $94,373,000 and a fair value of $92,082,000, as compared to an amortized cost of $50,159,000 and a fair value of $50,980,000 at December 31, 2012. The held to maturity securities are U.S. government agency debentures and pass-through mortgage-backed securities in which the full payment of principal and interest is guaranteed; however, they are not classified as available for sale because of prevailing low interest rates at purchase, therefore these securities are projected not to be practicable to sell for liquidity needs in future periods. These securities are generally used as required collateral for certain eligible government accounts or repurchase agreements. They are also held for possible pledging to access additional liquidity for banking subsidiary needs in the form of Federal Home Loan Bank borrowings.

The Corporation does not own investments consisting of pools of Alt A or subprime mortgages, private label mortgage-backed securities, or trust preferred investments.

The fair values of securities available for sale (carried at fair value) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1) or by matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific security but rather by relying on the security's relationship to other benchmark quoted prices. The Corporation uses independent service providers to provide matrix pricing. Please refer to Note C "Securities" in the Notes to Consolidated Financial Statements for more information on the security portfolio and Note L "Fair Value Measurements" in the Notes to Consolidated Financial Statements for more information about fair value.

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

Table 3 Investment Securities

In thousands	2013	2012	2011
AVAILABLE FOR SALE SECURITIES AT FAIR VALUE			
U.S. Government and agencies	**$ 21,651**	$ 24,241	$ 40,169
Mortgage-backed securities	**53,740**	80,583	107,527
State and municipal	**41,522**	51,804	46,317
Corporate bonds	**11,165**	7,286	13,379
CRA mutual fund	**1,033**	1,096	1,081
Stock in other banks	**872**	780	754
	129,983	165,790	209,227
HELD TO MATURITY SECURITIES AT AMORTIZED COST			
U.S. Government and agencies	**37,528**	30,115	10,032
Mortgage-backed securities	**56,845**	20,044	
	94,373	50,159	10,032
TOTAL	**$ 224,356**	$ 215,949	$ 219,259

Table 4 discloses investment securities at the scheduled maturity date at December 31, 2013. Many securities have call features that make their redemption possible before the stated maturity date.

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Table 4 Securities Maturity Schedule

	1 Year or Less		Over 1-5 Years		Over 5-10 Years		Over 10 Years or No Maturity		Total	
Dollars in thousands	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
U.S. Government and agencies	$ 14,010	3.16%	$ 36,154	1.98%	$ 8,458	1.68%	$	%	$ 58,622	2.22%
Mortgage-backed securities			4,158	4.71	42,766	3.20	61,462	2.79	108,386	3.03
State and municipal	820	3.75	11,574	3.39	25,408	3.21	2,978	4.03	40,780	3.33
Corporate bonds	1,000	5.40	5,004	2.56	5,000	1.21			11,004	2.22
CRA mutual fund							1,044		1,044	
Stock in other banks							627		627	
	$ 15,830	3.33%	$ 56,890	2.52%	$ 81,632	2.93%	$ 66,111	2.78%	$ 220,463	2.81%

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

Loans

Year over year, loans outstanding increased by $20,512,000, or 2.9%, in 2013, as compared to 2.0% growth experienced in 2012, both years demonstrating the determined efforts to lend to creditworthy borrowers subject to the Corporation's disciplined underwriting standards despite the continued slow economic conditions. The higher increase in 2013 was created by concerted efforts to produce new loans despite several payoffs of large local and participated loans. Within the portfolio, the higher growth was centered in increased commercial purpose loans and in local market residential mortgages, in part offset by continued declines in commercial construction loans.The commercial purpose segments increased $6,380,000, or 2.2%, during 2013, spread among diverse categories that include farmland secured, loans to local government units, and other types of commercial lending. Residential real estate mortgage lending, which includes smaller commercial purpose loans secured by the owner's home, increased by $22,895,000, or 6.0%, to local borrowers who preferred loan types that would not be sold into the secondary mortgage market. Of the $22,895,000 increase, $1,800,000 were residential mortgage loans secured by junior liens or home equity loans, which are also in many cases junior liens. Junior liens inherently have more credit risk by virtue of the fact that another financial institution may have a senior security position in the case of foreclosure liquidation of collateral to extinguish the debt. Generally, foreclosure actions could become more prevalent if the real estate market weakens and property values deteriorate. Real estate construction loans continued to decline in 2013, down $7,958,000, or 41.5%, as a result of the weak demand in the residential real estate market and because of stricter underwriting on this loan type due to the category's credit attributes.

The residential real estate category was higher in 2012 compared to 2011 as the result of more concentrated efforts to book consumer loans secured by real estate. In 2012, commercial lending staff concentrated in maintaining business lending outstandings despite reduced business activity in the market area that hindered new originations, as well as management's decision to not renew certain commercial loans, primarily participation credits in conjunction with other financial institutions, due to perceived potential credit risk.

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Table 5 Loan Portfolio

Loans at December 31 were as follows:

In thousands	2013	2012	2011	2010	2009
Commercial, financial and agricultural	**$ 59,217**	$ 49,004	$ 56,145	$ 52,676	$ 45,947
Real estate:					
Commercial	**239,186**	243,019	236,017	225,950	209,054
Construction	**11,196**	19,154	22,757	26,635	37,966
Residential	**404,861**	381,966	363,798	345,854	337,342
Consumer	**14,188**	14,993	15,751	14,176	14,378
Total Loans	**$ 728,648**	$ 708,136	$ 694,468	$ 665,291	$ 644,687

The repricing range of the loan portfolio at December 31, 2013, and the amounts of loans with predetermined and fixed rates are presented in the tables below:

Table 6 Loan Sensitivities

LOANS MATURING

In thousands	Less than 1 Year	1-5 Years	Over 5 Years	Total
Commercial, financial and agricultural	**$ 8,173**	**$ 30,174**	**$ 20,870**	**$ 59,217**
Real estate:				
Commercial	**9,481**	**63,892**	**165,813**	**239,186**
Construction	**1,750**	**3,371**	**6,075**	**11,196**
Residential	**50,414**	**87,244**	**267,203**	**404,861**
Total	**$ 69,818**	**$ 184,681**	**$ 459,961**	**$ 714,460**

LOANS BY REPRICING OPPORTUNITY

In thousands	Less than 1 Year	1-5 Years	Over 5 Years	Total
Commercial, financial and agricultural	**$ 11,081**	**$ 33,180**	**$ 14,956**	**$ 59,217**
Real estate:				
Commercial	**68,162**	**132,073**	**38,951**	**239,186**
Construction	**2,193**	**3,607**	**5,396**	**11,196**
Residential	**72,030**	**79,979**	**252,852**	**404,861**
Total	**$ 153,466**	**$ 248,839**	**$ 312,155**	**$ 714,460**

Loans with a fixed interest rate	$ 17,122	$ 47,096	$ 289,185	$ 353,403
Loans with a variable interest rate	136,344	201,743	22,970	361,057
Total	$ 153,466	$ 248,839	$ 312,155	$ 714,460

Most of the Corporation's lending activities are with customers located within southcentral Pennsylvania and in the northern Maryland area that is contiguous to its Pennsylvania retail banking offices. This region currently and historically has lower unemployment than the U.S. as a whole. Included in commercial real estate loans are loans made to lessors of non-residential dwellings that total $104,752,000, or 14.4% of total loans, at December 31, 2013. These borrowers are geographically dispersed throughout ACNB's marketplace and are leasing commercial properties to a varied group of tenants including medical offices, retail space, and other commercial purpose facilities. Because of the

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varied nature of the tenants, in aggregate, management believes that these loans present an acceptable risk when compared to commercial loans in general. ACNB does not originate or hold Alt-A or subprime mortgages in its loan portfolio.

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.

Although materially elevated from several years back, the unemployment rate in ACNB's market area remained below the state and national average during 2013. Additionally, low interest rates, a less volatile local economy, and minimal inflation continued to provide some support to the economic conditions in the area. During 2013, continued contraction in new residential real estate development/construction and general lower economic activity lingered from the recent major recession, challenging the Corporation's marketplace commercial activity. Slower growth areas such as ACNB's marketplace generally do not retract in economic recessions as quickly and as low as other areas of the country, however the recovery from low economic cycles are also generally slower.

Non-performing assets include nonaccrual loans and restructured loans (troubled debt restructures or TDRs), accruing loans past due 90 days or more, and other foreclosed assets. The accrual of interest on residential mortgage and commercial loans (consisting of commercial and industrial, commercial real estate, and commercial real estate construction loan categories) is discontinued at the time the loan is 90 days past due unless the credit is well secured and in the process of collection. Consumer loans (consisting of home equity lines of credit and consumer loan categories) 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. 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 a TDR 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 to a borrower, for economic or legal reasons related to the borrower's financial difficulties.

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

Table 7 Non-Performing Assets

Dollars in thousands	2013	2012	2011	2010	2009
Nonaccrual loans, including TDRs	**$ 8,573**	$ 6,327	$ 12,846	$ 14,657	$ 13,308
Accruing loans 90 days past due	**1,926**	771	1,191	997	2,107
Total Non-Performing Loans	**10,499**	7,098	14,037	15,654	15,415
Foreclosed assets	**1,762**	4,247	4,437	7,859	6,046
Total Non-Performing Assets	**$ 12,261**	$ 11,345	$ 18,474	$ 23,513	$ 21,461
Total Accruing Troubled Debt Restructurings	**$ 7,139**	$ 4,815	$	$	$
Ratios:					
Non-performing loans to total loans	**1.44%**	1.00%	2.02%	2.35%	2.39%
Non-performing assets to total assets	**1.17%**	1.08%	1.84%	2.43%	2.23%
Allowance for loan losses to non-performing loans	**153.26%**	237.04%	110.29%	97.43%	77.72%

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 $704,000 in 2013, $543,000 in 2012, and $652,000 in 2011. The increase in nonaccrual loans from 2012 to 2013 is discussed further below.

Impaired loans at December 31, 2013 and 2012, totaled $15,712,000 and $11,142,000, respectively. At December 31, 2013 and 2012, $2,036,000 and $1,900,000, respectively, of the impaired loans were troubled debt restructured loans, which were also classified as nonaccrual. $7,139,000 of the impaired loans were accruing troubled debt restructured loans. Loans whose terms are modified are classified as troubled debt restructurings if the borrowers have been granted concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve interest rates being granted below current market rates for the credit risk of the loan or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired. The related allowance for loan losses on impaired loans totaled $201,000 and $36,000 at December 31, 2013 and 2012, respectively. The increase in accruing troubled debt restructurings was due to one loan relationship with adequate real estate collateral that was granted a change in terms during the period. The increase in nonaccrual loans was related to commercial loans with adequate real estate collateral, net of other loan amounts that were charged-off. Further discussion on nonaccrual loans is included below in a separate discussion on nonaccrual loans. 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 additional potential problem loans approximated $9,083,000 at December 31, 2013, compared to $13,076,000 at December 31, 2012.

Foreclosed assets held for resale consists of the fair value of real estate acquired through foreclosure on real estate loan collateral or the acceptance of ownership of such real estate in lieu of the foreclosure process. Fair values are based on appraisals that consider the sale prices of similar properties in the proximate vicinity less estimated selling costs. Foreclosed assets held for resale totaled $1,762,000 at December 31, 2013. Four unrelated commercial use or construction real estate properties were brought into foreclosed real estate in 2012, 2011, or 2010 with an aggregate fair value of $1,072,000. In addition, the fair value of $690,000 for foreclosed real estate at December 31, 2013, represented four residential real estate single family homes, which were taken into foreclosed real

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estate in 2013. All properties are being actively marketed to targeted buyers by external and internal resources. The total of $4,247,000 in foreclosed real estate at December 31, 2012, represented one economic development project, seven commercial real estate properties, and two single family homes.

Allowance for Loan Losses

ACNB maintains the allowance for loan losses at a level believed to be adequate by management to absorb potential losses in the loan portfolio, and it is funded through a provision for loan losses charged to earnings. On a quarterly basis, ACNB utilizes a defined methodology in determining the adequacy of the allowance for loan losses, which considers specific credit reviews, past loan losses, 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 that is prudent and conservative, but not excessive.

Management assigns internal risk ratings for each 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 identifies impaired loans with uncertain collectibility of principal and interest, it 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;
- the current estimated fair value of underlying collateral; and,
- prevailing market conditions.

If management determines a loan is not impaired, a specific reserve allocation is not required. Management then places the loan in a pool of loans with similar risk factors and 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 three years for each specific loan pool. Additionally, management adjusts projected loss ratios for other factors, including the following:

- lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
- national, regional, and local economic and business conditions, as well as the condition of various market segments, including the impact on the value of underlying collateral for collateral dependent loans;
- nature and volume of the portfolio and terms of loans;
- experience, ability and depth of lending management and staff;
- volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications; and,
- existence and effect of any concentrations of credit and changes in the level of such concentrations.

Management determines the unallocated portion of the allowance for loan losses, which represents the difference between the reported allowance for loan losses and the calculated allowance for loan losses, based on the following criteria:

- risk of imprecision in the specific and general reserve allocations;

the perceived level of consumer and small business loans with demonstrated weaknesses for which it is not practicable to develop specific allocations;

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other potential exposure in the loan portfolio;

variances in management's assessment of national, regional, and local economic conditions; and,

other internal or external factors that management believes appropriate at that time.

The unallocated portion of the allowance is deemed to be appropriate as it reflects an uncertainty that remains in the loan portfolio, as well as a Corporation specific and industry-wide hesitancy to prematurely release reserves at this time as the Corporation believes that losses are probable. The Corporation has determined that the amount of provision in 2013 and the resulting allowance at December 31, 2013, are appropriate given the continuing level of risk in the loan portfolio. Further, management believes the unallocated allowance is appropriate as the total amount of impaired loans increased and, although the impaired loans added in 2013 demonstrate generally low risk because of adequate real estate collateral, the value of such collateral can decrease; plus, the growth in the loan portfolio is centered around residential real estate which continues to have little increase in value and low liquidity. In addition, there are certain loans that, although they did not meet the criteria for impairment, management believes there was a strong possibility that these loans represented probable losses at December 31, 2013.

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 provision for 2013 was $3,225,000 less than the provision for 2012. The provision for 2012 was $760,000 less than the provision for 2011. Management believes that the decreases in the provision are directionally consistent with the credit risk in the loan portfolio.

Federal and state regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses and may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio and economic conditions, management believes the current level of the allowance for loan losses is adequate.

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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

	Years Ended December 31,				
Dollars in thousands	**2013**	**2012**	**2011**	**2010**	**2009**
Beginning balance	**$ 16,825**	$ 15,482	$ 15,252	$ 11,981	$ 7,393
Provision for loan losses	**1,450**	4,675	5,435	6,410	4,750
Loans charged-off:					
Commercial, financial and agricultural	**178**	2,180	1,861	204	221
Real estate	**996**	955	2,550	2,049	
Residential mortgage	**1,062**	551	802	810	64
Consumer	**191**	71	30	118	63
Total Loans Charged-Off	**2,427**	3,757	5,243	3,181	348
Recoveries:					
Commercial, financial and agricultural	**235**	22	34	2	172
Real estate		399			
Residential mortgage	**4**	1	2	35	1
Consumer	**4**	3	2	5	13
Total Recoveries	**243**	425	38	42	186
Net charge-offs	**2,184**	3,332	5,205	3,139	162
Ending balance	**$ 16,091**	$ 16,825	$ 15,482	$ 15,252	$ 11,981
Ratios:					
Net charge-offs to average loans	**0.31%**	0.48%	0.77%	0.47%	0.03%
Allowance for loan losses to total loans	**2.21%**	2.38%	2.23%	2.29%	1.86%

Table 9 Allocation of the Allowance for Loan Losses

	2013		2012		2011		2010		2009	
Dollars in thousands	**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**
Commercial, financial and agricultural	**$ 1,915**	**8.1%**	$ 1,507	6.9%	$ 2,582	8.1%	$ 2,074	7.9%	$ 1,539	7.1%
Real estate:										
Commercial	**5,819**	**32.8**	6,576	34.4	6,007	34.0	6,346	34.0	4,250	28.1
Construction	**247**	**1.5**	518	2.7	548	3.3	1,154	4.0	3,086	5.9
Residential	**4,550**	**55.6**	4,238	53.9	4,131	52.4	3,449	44.6	1,693	56.7
Consumer	**947**	**2.0**	633	2.1	419	2.3	520	9.5	403	2.2
Unallocated	**2,613**	**N/A**	3,353	N/A	1,795	N/A	1,709	N/A	1,010	N/A

Total	**$ 16,091**	**100.0%**	$ 16,825	100.0%	$ 15,482	100.0%	$ 15,252	100.0%	$ 11,981	100.0%

The allowance for loan losses at December 31, 2013, was $16,091,000, or 2.21% of loans, as compared to $16,825,000, or 2.38% of loans, at December 31, 2012. The ratio of non-performing loans plus foreclosed assets to total assets was 1.17% at December 31, 2013, as compared to 1.08% at December 31, 2012.

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Loans past due 90 days and still accruing were $1,926,000 and nonaccrual loans were $8,573,000 as of December 31, 2013. Loans past due 90 days and still accruing were $771,000 at December 31, 2012, while nonaccruals were $6,327,000.

Additional information on nonaccrual loans at December 31, 2013 and 2012, is as follows:

Dollars in thousands	Number of Credit Relationships	Balance	Current Specific Loss Allocations	Current Year Charge-Offs	Location	Originated	
December 31, 2013							
Residential real estate developments	**3**	**$ 1,010**	**$**	**$ 214**	**In market**	**2006**	**2009**
Owner occupied commercial real estate	**17**	**6,439**	**101**	**109**	**In market**	**1995**	**2011**
Investment/rental commercial real estate	**4**	**975**	**100**	**634**	**In market**	**1998**	**2011**
Commercial and industrial	**2**	**149**		**22**	**In market**	**2007**	**2008**
Total	**26**	**$ 8,573**	**$ 201**	**$ 979**			
December 31, 2012							
Residential real estate developments	2	$ 854	$	$ 389	In market	2006	2010
Owner occupied commercial real estate	12	3,137	7	83	In market	1995	2010
Investment/rental commercial real estate	6	1,995		606	In market	2003	2011
Commercial and industrial	3	341	29	1,954	In market	2006	2010
Total	23	$ 6,327	$ 36	$ 3,032			

All nonaccrual impaired loans are to borrowers located within the market area served by the Corporation in southcentral Pennsylvania and nearby areas of northern Maryland. All nonaccrual impaired loans were originated by ACNB's banking subsidiary, except for one participation loan discussed below, between 1995 and 2011 for purposes listed in the classifications in the table above.

Included in residential real estate developments at December 31, 2013, the Corporation had one impaired and nonaccrual loan of $694,000 to finance a project in the Corporation's primary trading area of southcentral Pennsylvania. The loan had standard terms and conditions including repayment from the sales of the respective properties and no interest reserves, and was originated during the first half of 2006. Foreclosure has been held in abeyance while allowing the pursuit of a workout plan including providing additional collateral and more targeted marketing of the property. This loan was charged-down by $274,000 in the first quarter of 2011 due to declines in fair value, and subsequently additional paydowns were made by the borrower from sales of collateral. Because of the 2011 write-down and subsequent principal repayment, there was no specific valuation allowance on this loan at December 31, 2013. One smaller residential real estate development loan, added in 2010, was reduced by collateral sales to $94,000, which is supported by the remaining collateral's current fair value. Another smaller residential real estate development relationship, added in 2013 after the borrower filed Chapter 13 bankruptcy, was not fully supported by the collateral's fair value because of a dispute on a prior lien. The relationship totaled $436,000 prior to charge-offs of $214,000 taken in 2013 on confirmed losses based on new appraisals. Legal action has commenced on resolving the issues on this credit. The respective allowances, write-downs and charge-offs were derived by estimating the cash flow from the sale of the property given the respective stage of completion.

Owner occupied commercial real estate includes 17 unrelated loan relationships, all of which but one participation and a loan relationship for farmland have balances of less than $625,000 each, for which the real estate is collateral and is used in connection with a business enterprise that is suffering economic stress or is out of business. The one participation loan was added in the fourth quarter of 2013 with an outstanding

participation balance of $1,425,000. The participation loan, for a business in

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southcentral Pennsylvania with normal terms and conditions, was purchased in 2005 and is adequately secured, despite a late 2013 borrower's bankruptcy filing, by inventory, accounts receivable, and real estate. The farmland relationship with an outstanding balance of $925,000, with normal terms and conditions, was added to nonaccrual in the second quarter of 2013 after the loan matured and the borrower commenced a bankruptcy filing. Based on recent appraisals, the loan appears to be adequately collateralized. The other loans in this category were originated between 1995 and 2010 and are business loans impacted by the general economic downturn. Collection efforts will continue until it is deemed in the best interest to initiate foreclosure procedures. One loan with a balance of $165,000 had a specific allocation of $17,000 and another unrelated credit with a balance of $566,000 had a specific allocation of $84,000 based on appraisals less estimated costs to sell.

Investment/rental commercial real estate includes four unrelated loan relationships totaling $975,000, of which one loan was approximately $727,000, for which the real estate is collateral and the purpose of which is for speculation, rental, or other non-owner occupied uses. The $727,000 credit was added in the first quarter of 2013 and has a specific allocation of $93,000 after an interim partial charge-off of $101,000. All of these loans were originated between 1998 and 2011. The loans were each affected by the lack of borrower cash flow to continue to service the debt and, in some cases, by increased real estate taxes levied by local government units. The plan is to enter foreclosure proceedings and subsequently market the real estate if ongoing workout efforts are not successful. One loan in this category, with standard terms and conditions, was participated from another bank in 2006 and added to nonaccrual in 2012 for nonpayment, afterwhich a period of time expired while the customer contested foreclosure. An interim charge-off of $244,000 was taken based on an appraisal and a known superior lien. Prior to sheriff sale in the fourth quarter of 2013, another superior lien was discovered, afterwhich the loan was completely charged off with a $456,000 final loss. Another smaller relationship has a $7,000 specific allocation on a $133,000 balance.

Included in impaired commercial and industrial loans is a fully-disbursed line of credit, originated in the second quarter of 2007 for a start-up enterprise in the food industry in southcentral Pennsylvania, totaling $142,000 with no specific valuation allowance at December 31, 2013, which is net of a $1,000,000 charge-off taken in 2008 and an additional charge-off of $529,000 in 2011. Subsequently, in the third quarter of 2011, the borrower entered into an addendum to a prior delinquent forbearance agreement with all required principal forbearance payments made by the borrower. This loan, with standard terms and conditions including repayment from conversion of trade assets, continues in default and in nonaccrual status. The remaining smaller loan in this category, a business loan impacted by the general economic downturn, has a remaining balance of $7,000 at year-end 2013. Another loan had a $22,000 charge-off to close out the loan in 2013 after receipt of an 80% government guarantee.

The Corporation utilizes a systematic review of its loan portfolio on a quarterly basis in order to determine the adequacy of the allowance for loan losses. In addition, ACNB engages the services of an outside independent loan review function and sets the timing and coverage of loan reviews during the year. The results of this independent loan review are included in the systematic review of the loan portfolio. The allowance for loan losses consists of a component for individual loan impairment, primarily based on the loan's collateral fair value and expected cash flow. A watch list of loans is identified for evaluation based on internal and external loan grading and reviews. Loans other than those determined to be impaired are grouped into pools of loans with similar credit risk characteristics. These loans are evaluated as groups with allocations made to the allowance based on historical loss experience adjusted for current trends in delinquencies, trends in underwriting and oversight, concentrations of credit, and general economic conditions within the Corporation's trading area. The provision expense was based on the loans discussed above, as well as current trends in the watch list and the local economy as a whole. The charge-offs discussed elsewhere in this Management's Discussion and Analysis create the recent loss history experience and result in the qualitative

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adjustment which, in turn, affects the calculation of losses inherent in the portfolio. The provision for loan losses for 2013 compared to 2012 and 2011 was a result of the measurement of the adequacy of the allowance for loan losses at each period. The decrease in the provision was a result of the analysis of the adequacy of the allowance for loan losses. More specifically, even though nonaccrual loans increased, provision expense decreased due to the scaling back of the unallocated portion of the allowance in proportion to substandard loans in accordance with management's belief that adequate collateralization exists for substandard loans in accordance with GAAP. Each quarter, the Corporation assesses risk in the loan portfolio compared with the balance in the allowance for loan losses and the current evaluation factors.

Foreclosed Assets Held for Resale

The carrying value of real estate acquired through foreclosure was $1,762,000 at December 31, 2013, compared to $4,247,000 at December 31, 2012. The decrease was mainly due to 11 properties that were disposed of in 2013. The largest property unsold at December 31, 2013, includes $423,000 in related real estate development parcels acquired in 2012 that are actively being marketed, with one property under contract at December 31, 2013. Three additional commercial properties were added in 2010, 2011 and 2012 that remain unsold at December 31, 2013, with an aggregate fair value of $649,000. Four unrelated residential properties totaling $690,000 added in 2013 remain unsold at December 31, 2013. All properties are actively being marketed. The Corporation expects to obtain and market additional foreclosed assets in 2014; however, the total amount and timing is currently not certain.

Other Assets

Other assets increased $6,143,000, or 41.8%, in 2013 compared to 2012, primarily because of a $7,287,000 improvement in the funded status of the Bank's pension plan.

Deposits

ACNB relies on deposits as the primary source of funds for lending activities. Average deposits increased 1.6%, or $13,099,000, during 2013, as compared to 5.0% during 2012. ACNB's deposit pricing function employs a disciplined pricing approach based upon alternative funding rates, but also strives to price deposits to be competitive with relevant local competition, including credit unions and larger regional banks. The 2013 deposit growth mix experienced a continued shift to transaction accounts as customers put more value in liquidity and FDIC insurance. Products, such as money market accounts and interest-bearing transaction accounts that had suffered declines in past years, continued with recovered balances while time deposits decreased. Year-end 2012 to year-end 2013 recorded a decrease in deposits of $33,533,000, or 4.0%, most of which was in time deposits, as such funds typically are more rate sensitive and subject to movement into other markets such as equities. With persistent low market interest rates in a slow economy, ACNB's ability to maintain and add to its deposit base may be impacted by the reluctance of consumers to accept low rates and by competition willing to pay above market rates to attract market share. Alternatively, if rates rise rapidly and the equity markets continue to improve, funds could leave the Corporation or be priced higher to maintain deposits.

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Table 10 Time Deposits

Maturities of time deposits of $100,000 or more outstanding at December 31, 2013, are summarized as follows:

In thousands	
Three months or less	**$ 22,657**
Over three through six months	**8,798**
Over six through twelve months	**16,464**
Over twelve months	**22,390**
Total	**$ 70,309**

Borrowings

Short-term borrowings are comprised primarily of securities sold under agreements to repurchase and short-term borrowings from the Federal Home Loan Bank (FHLB). As of December 31, 2013, short-term borrowings were $49,052,000, an increase of $1,749,000, or 3.7%, from the December 31, 2012, balance of $47,303,000. Agreements to repurchase accounts are within the commercial customer base and have attributes similar to core deposits. Investment securities are pledged in sufficient amounts to collateralize these agreements. Compared to year-end 2012, repurchase agreement balances were down due to normal fluctuations in the business activities of ACNB's commercial customer base. At December 31, 2013, there were $6,800,000 in short-term FHLB borrowings, due to deposit funding decreases and loan increases. Long-term borrowings consist primarily of longer-term advances from the FHLB that contribute to a more balanced net repricing position. In addition, such borrowings include a loan from a commercial bank to fund the initial purchase of RIG. Long-term borrowings totaled $82,703,000 at December 31, 2013, versus $59,954,000 at December 31, 2012. The Corporation increased long-term borrowings to fund loan demand that was in excess of the amount available from deposits. Additional laddered FHLB fixed-rate term advances were taken in October and December 2013 to reduce net liability sensitivity, to take advantage of perhaps temporarily lowered rates, and to increase liquidity during a period of federal government-related uncertainty. Further borrowings will be used when necessary for a variety of risk management and funding purposes. Please refer to the *Liquidity* discussion below for more information on the Corporation's ability to borrow.

The following tables set forth information about the Corporation's borrowings as of the dates indicated:

In thousands	2013	2012	2011
Short-term borrowings outstanding at end of year:			
FHLB overnight advance	**$ 6,800**	$	$
Securities sold under repurchase agreements	**42,252**	47,303	45,962
Total	**$ 49,052**	$ 47,303	$ 45,962

Dollars in thousands	2013	2012	2011
Average interest rate at year-end	**0.14%**	0.14%	0.20%
Maximum amount outstanding at any month-end	**$ 76,333**	$ 58,343	$ 56,238
Average amount outstanding	**$ 53,184**	$ 48,300	$ 43,124
Weighted average interest rate	**0.11%**	0.16%	0.21%

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Capital

ACNB's capital management strategies have been developed to provide an appropriate rate of return to stockholders, while maintaining its "well capitalized" position. Total stockholders' equity was $106,802,000 at December 31, 2013, compared to $101,264,000 at December 31, 2012. Stockholders' equity increased during 2013 due to earnings retained in capital during 2013 and an increase in accumulated other comprehensive income resulting from amounts associated with the pension plan, offset by the change in fair value of the assets in the available for sale investment portfolio.

The primary source of additional capital to ACNB is earnings retention, which represents net income less dividends declared. During 2013, ACNB retained $4,773,000, or 51.2%, of its net income, as compared to $4,362,000, or 49.1%, in 2012 and $3,990,000, or 46.9%, in 2011.

ACNB Corporation has a Dividend Reinvestment and Stock Purchase Plan that provides registered holders of ACNB Corporation common stock with a convenient way to purchase additional shares of common stock by permitting participants in the plan to automatically reinvest cash dividends on all or a portion of the shares owned and to make quarterly voluntary cash payments under the terms of the plan. Participation in the plan is voluntary, and there are eligibility requirements to participate in the plan. Cumulative to December 31, 2013, 62,968 shares were issued under this plan with proceeds in the amount of $999,000. Proceeds are used for general corporate purposes.

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 its 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 require ACNB to maintain minimum amounts and ratios of total and Tier 1 capital to average assets. Management believes, as of December 31, 2013 and 2012, that ACNB's banking subsidiary met all minimum capital adequacy requirements to which it is subject and is categorized as "well capitalized". There are no subsequent conditions or events that management believes have changed the banking subsidiary's category.

Regulatory Capital Changes

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The phase-in period for community banking organizations begins January 1, 2015, while larger institutions (generally those with assets of $250 billion or more) must begin compliance on January 1, 2014. The final rules call for the following capital requirements:

- a minimum ratio of common Tier 1 capital to risk-weighted assets of 4.5%;
- a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%;
- a minimum ratio of total capital to risk-weighted assets of 8.0%, which is no change from the current rule; and,
- a minimum leverage ratio of 4.0%.

In addition, the final rules establish a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold

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capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations will begin on January 1, 2016.

Under the proposed rules, accumulated other comprehensive income (AOCI) would have been included in a banking organization's common equity Tier 1 capital. The final rules allow community banks to make a one-time election not to include the additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The opt-out election must be made in the first call report or FR Y-9 series report that is filed after the financial institution becomes subject to the final rule.

The final rules permanently grandfather non-qualifying capital instruments (such as trust preferred securities and cumulative perpetual preferred stock) issued before May 19, 2010, for inclusion in the Tier 1 capital of banking organizations with total consolidated assets of less that $15 billion as of December 31, 2009, and banking organizations that were mutual holding companies as of May 19, 2010.

The proposed rules would have modified the risk-weight framework applicable to residential mortgage exposures to require banking organizations to divide residential mortgage exposures into two categories in order to determine the applicable risk weight. In response to commenter concerns about the burden of calculating the risk weights and the potential negative effect on credit availability, the final rules do not adopt the proposed risk weights, but retain the current risk weights for mortgage exposures under the general risk-based capital rules.

Consistent with the Dodd-Frank Act, the new rules replace the ratings-based approach to securitization exposures, which is based on external credit ratings, with the simplified supervisory formula approach in order to determine the appropriate risk weights for these exposures. Alternatively, banking organizations may use the existing gross-up approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250 percent risk weight.

Under the new rules, mortgage servicing assets and certain deferred tax assets are subject to stricter limitations than those applicable under the current general risk-based capital rule. The new rules also increase the risk weights for past due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors.

The Corporation is in the process of assessing the impact of these changes on the regulatory ratios of the Corporation and the banking subsidiary, as well as on the capital, operations, liquidity, and earnings of the Corporation and the banking subsidiary.

Table 11 Risk-Based Capital

The banking subsidiary's capital ratios are as follows:

	2013	2012	To be Well Capitalized under Prompt Corrective Action Regulations
Tier 1 leverage ratio (to average assets)	**8.76%**	8.14%	5.00%
Tier 1 risk-based capital ratio (to risk-weighted assets)	**12.99%**	12.80%	6.00%
Total risk-based capital ratio	**14.26%**	14.07%	10.00%

For further information on the actual and required capital amounts and ratios, please refer to Note N "Regulatory Matters" in the Notes to Consolidated Financial Statements.

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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 interest bearing deposits with banks, 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, 2013, ACNB could borrow approximately $420,550,000 from the FHLB of which $332,750,000 was available. Because of various restrictions and requirements on utilizing the available balance, ACNB considers $250,000,000 to be the practicable additional borrowing capacity, which is considered to be sufficient for operational needs. The FHLB system is self-capitalizing, member-owned, and its member banks' stock is not publicly traded. ACNB creates its borrowing capacity with the FHLB by granting a security interest in certain loan assets with requisite credit quality. ACNB has reviewed information on the FHLB system and the FHLB of Pittsburgh, and has concluded that they have the capacity and intent to continue to provide both operational and contingency liquidity. The FHLB of Pittsburgh instituted a requirement that a member's investment securities must be moved into a safekeeping account under FHLB control to be considered in the calculation of maximum borrowing capacity. The Corporation currently has securities in safekeeping at the FHLB of Pittsburgh; however, the safekeeping account is under the Corporation's control. As better contingent liquidity is maintained by keeping the securities under the Corporation's control, the Corporation has not moved the securities which, in effect, lowered the Corporation's maximum borrowing capacity. However, there is no practical reduction in borrowing capacity as the securities can be moved into the FHLB-controlled account promptly if they are needed for borrowing purposes.

Another source of liquidity is securities sold under repurchase agreements to customers of ACNB's banking subsidiary totaling $42,252,000 and $47,303,000 at December 31, 2013 and 2012, 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 subsidiaries. Federal and state banking regulations place certain legal restrictions and other practicable safety and soundness restrictions on dividends paid to the parent company from the subsidiary bank. For a discussion of ACNB's dividend restrictions, please refer to Item 1 "Business" and Note J "Regulatory Restrictions on Dividends" in the Notes to Consolidated Financial Statements.

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.

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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, 2013:

In thousands	Less than 1 Year	1 - 3 Years	4 - 5 Years	Over 5 Years	Total
Time deposits	$ 152,255	$ 75,408	$ 8,137	$	$ 235,800
Short-term borrowings	49,052				49,052
Long-term debt	29,265	36,577	16,645	216	82,703
Operating leases	413	573	172	303	1,461
Payments under nonqualified benefit plans(1)	100	200	116	6,633	7,049
Total	$ 231,085	$ 112,758	$ 25,070	$ 7,152	$ 376,065

(1) The payments under nonqualified benefit plans excludes expected benefit retirement payments that will be paid from plan assets.

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 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, 2013, the Corporation had unfunded outstanding commitments to extend credit of $156,135,000 and outstanding standby letters of credit of $4,176,000. 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. Please refer to Note O "Financial Instruments with Off-balance Sheet Risk" in the Notes to Consolidated Financial Statements for a discussion of the nature, business purpose, and importance of the Corporation's off-balance sheet arrangements.

New Accounting Pronouncements

See Note A "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements for a summary of these new accounting pronouncements not yet adopted.

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ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial institutions can be exposed to several market risks that may impact the value or future earnings capacity of the 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 (primarily loans and investments) 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.

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 banking subsidiary's 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 asset/liability 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

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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, 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, 2013, indicate that the Corporation would expect net interest income to decrease over the next twelve months by 0.30% assuming an upward ramp in market interest rates of 3.00%, and to decrease by 6.19% if rates ramped downward 3.00%. This profile reflects an acceptable short-term interest rate risk position. However, a decrease of 3.00% would create an environment in which deposit rates could not practically decline further, thus decreasing net interest income.

Earnings at risk simulations for December 31, 2012, exhibited similar sensitivity in a declining rate environment reflecting an interest rate environment in which larger rate declines could be expected.

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, 2013, indicate that the net present value would decrease 3.91% assuming an upward shift in market interest rates of 3.00% and decrease 0.64% if rates shifted 1.00% in the same manner.

December 31, 2013 **Table 13a** **Net Interest Income Projections**		**December 31, 2013** **Table 13b** **Present Value of Equity**	
Changes in Basis Points	**% Change**	**Changes in Basis Points**	**% Change**
(300)	**(6.19)%**	**(300)**	**(11.49)%**
(100)	**(1.42)%**	**(100)**	**(6.66)%**
100	**(0.15)%**	**100**	**(0.64)%**
300	**(0.30)%**	**300**	**(3.91)%**

December 31, 2012 **Table 13a** **Net Interest Income Projections**		**December 31, 2012** **Table 13b** **Present Value of Equity**	
Changes in Basis Points	**% Change**	**Changes in Basis Points**	**% Change**
(300)	(8.06)%	(300)	(7.79)%
(100)	(2.82)%	(100)	(2.56)%
100	0.81 %	100	2.93 %
300	2.07 %	300	2.03 %

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(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
Reports of Independent Registered Public Accounting Firms	59
Consolidated Statements of Condition	61
Consolidated Statements of Income	62
Consolidated Statements of Comprehensive Income	63
Consolidated Statements of Changes in Stockholders' Equity	64
Consolidated Statements of Cash Flows	65
Notes to Consolidated Financial Statements	66

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
ACNB Corporation
Gettysburg, Pennsylvania

We have audited the accompanying consolidated statement of condition of ACNB Corporation and Subsidiaries (the "Corporation") as of December 31, 2013 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements 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 the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides 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 at December 31, 2013, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ACNB Corporation and Subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in the *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 7, 2014, expressed an unqualified opinion.

/s/ BDO USA, LLP

Harrisburg, Pennsylvania
March 7, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of condition of ACNB Corporation and Subsidiaries (the "Corporation") as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2012. ACNB Corporation's management is responsible for these consolidated financial statements. 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 2012, and the consolidated results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC
Reading, Pennsylvania
March 15, 2013

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ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CONDITION

Dollars in thousands, except per share data	December 31, 2013	2012
ASSETS		
Cash and due from banks	**$ 13,963**	$ 19,078
Interest bearing deposits with banks	**4,153**	32,307
Total Cash and Cash Equivalents	**18,116**	51,385
Securities available for sale	**129,983**	165,790
Securities held to maturity, fair value $92,082; $50,980	**94,373**	50,159
Loans held for sale	**496**	6,687
Loans, net of allowance for loan losses $16,091; $16,825	**712,557**	691,311
Premises and equipment	**15,991**	15,131
Restricted investment in bank stocks	**6,861**	5,318
Investment in bank-owned life insurance	**32,237**	31,122
Investments in low-income housing partnerships	**4,687**	5,440
Goodwill	**6,308**	6,308
Intangible assets	**1,845**	2,409
Foreclosed assets held for resale	**1,762**	4,247
Other assets	**20,831**	14,688
Total Assets	**$ 1,046,047**	$ 1,049,995
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	**$ 128,011**	$ 119,297
Interest bearing	**672,632**	714,879
Total Deposits	**800,643**	834,176
Short-term borrowings	**49,052**	47,303
Long-term borrowings	**82,703**	59,954
Other liabilities	**6,847**	7,298
Total Liabilities	**939,245**	948,731
STOCKHOLDERS' EQUITY		
Preferred stock, $2.50 par value; 20,000,000 shares authorized; no shares outstanding		
Common stock, $2.50 par value; 20,000,000 shares authorized; 6,053,911 and 6,027,968 shares issued; 5,991,311 and 5,965,368 shares outstanding	**15,135**	15,070
Treasury stock, at cost (62,600 shares)	**(728)**	(728)

Additional paid-in capital	**9,628**	9,246
Retained earnings	**82,661**	77,888
Accumulated other comprehensive income (loss)	**106**	(212)
Total Stockholders' Equity	**106,802**	101,264
Total Liabilities and Stockholders' Equity	**$ 1,046,047**	$ 1,049,995

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

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ACNB CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

Dollars in thousands, except per share data	Years Ended December 31, 2013	2012	2011
INTEREST INCOME			
Loans, including fees	**$ 32,084**	$ 33,990	$ 34,493
Securities:			
Taxable	**4,230**	4,876	6,006
Tax-exempt	**1,197**	1,457	1,252
Dividends	**22**	27	13
Other	**68**	89	68
Total Interest Income	**37,601**	40,439	41,832
INTEREST EXPENSE			
Deposits	**2,177**	3,441	4,457
Short-term borrowings	**61**	76	91
Long-term borrowings	**1,751**	2,578	2,914
Total Interest Expense	**3,989**	6,095	7,462
Net Interest Income	**33,612**	34,344	34,370
PROVISION FOR LOAN LOSSES	**1,450**	4,675	5,435
Net Interest Income after Provision for Loan Losses	**32,162**	29,669	28,935
OTHER INCOME			
Service charges on deposit accounts	**2,246**	2,433	2,418
Income from fiduciary activities	**1,299**	1,224	1,396
Earnings on investment in bank-owned life insurance	**975**	981	968
Gain on life insurance proceeds		63	
Gains on sales or calls of securities		7	1
Service charges on ATM and debit card transactions	**1,434**	1,291	1,236
Commissions from insurance sales	**4,671**	4,835	4,824
Other	**1,078**	1,033	894
Total Other Income	**11,703**	11,867	11,737
OTHER EXPENSES			
Salaries and employee benefits	**18,950**	18,553	17,138
Net occupancy	**1,957**	1,952	2,043
Equipment	**2,826**	2,537	2,620
Professional services	**895**	825	911

Other tax	**901**	833	803
Supplies and postage	**583**	634	640
Marketing and corporate relations	**396**	372	478
FDIC and regulatory	**768**	843	1,026
Intangible assets amortization	**641**	641	641
Foreclosed real estate expenses (income)	**576**	(119)	725
Other operating	**3,522**	3,260	2,991
Total Other Expenses	**32,015**	30,331	30,016
Income Before Income Taxes	**11,850**	11,205	10,656
PROVISION FOR INCOME TAXES	**2,535**	2,319	2,154
Net Income	**$ 9,315**	$ 8,886	$ 8,502
PER SHARE DATA			
Basic earnings	**$ 1.56**	$ 1.49	$ 1.43
Cash dividends declared	**$ 0.76**	$ 0.76	$ 0.76

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

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ACNB CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In thousands	Years Ended December 31, 2013	2012	2011
NET INCOME	**$ 9,315**	$ 8,886	$ 8,502
OTHER COMPREHENSIVE INCOME (LOSS)			
SECURITIES			
Unrealized (losses) gains arising during the period, net of income taxes of $(1,567), $(197), and $1,067, respectively	**(3,042)**	(377)	2,074
Reclassification adjustment for net gains included in net income, net of income taxes of $0, $(2), and $0, respectively(A)(C)		(5)	(1)
PENSION			
Amortization of pension net loss, transition liability, and prior service cost, net of income taxes of $236, $226, and $66, respectively(B)(C)	**456**	435	126
Unrecognized net gain (loss), net of income taxes of $1,496, $(473), and $(1,404), respectively	**2,904**	(920)	(2,726)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**318**	(867)	(527)
TOTAL COMPREHENSIVE INCOME	**$ 9,633**	$ 8,019	$ 7,975

(A) Gross amounts are included in net gains on sales or calls of securities on the Consolidated Statements of Income in total other income.

(B) Gross amounts are included in the computation of net periodic benefit cost and are included in salaries and employee benefits on the Consolidated Statements of Income in total other expenses.

(C) Income tax amounts are included in the provision for income taxes on the Consolidated Statements of Income.

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

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ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2013, 2012 and 2011

Dollars in thousands	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE January 1, 2011	$ 14,977	$ (728)	$ 8,787	$ 69,536	$ 1,182	$ 93,754
Net income				8,502		8,502
Other comprehensive loss, net of taxes					(527)	(527)
Common stock shares issued (17,466 shares)	44		213			257
Cash dividends declared				(4,512)		(4,512)
BALANCE December 31, 2011	15,021	(728)	9,000	73,526	655	97,474
Net income				8,886		8,886
Other comprehensive loss, net of taxes					(867)	(867)
Common stock shares issued (19,559 shares)	49		246			295
Cash dividends declared				(4,524)		(4,524)
BALANCE December 31, 2012	15,070	(728)	9,246	77,888	(212)	101,264
Net income				**9,315**		**9,315**
Other comprehensive income, net of taxes					**318**	**318**
Common stock shares issued (25,943 shares)	**65**		**382**			**447**
Cash dividends declared				**(4,542)**		**(4,542)**
BALANCE December 31, 2013	**$ 15,135**	**$ (728)**	**$ 9,628**	**$ 82,661**	**$ 106**	**$ 106,802**

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

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ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
In thousands	**2013**	**2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 9,315**	$ 8,886	$ 8,502
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sales of loans	**(430)**	(296)	(258)
Loss (gain) on sales of foreclosed assets held for resale, including writedowns	**181**	(400)	296
Earnings on investment in bank-owned life insurance	**(975)**	(981)	(968)
Gain on sales or calls of securities		(7)	(1)
Gain on life insurance proceeds		(63)	
Depreciation and amortization	**1,993**	2,041	2,218
Provision for loan losses	**1,450**	4,675	5,435
Net amortization of investment securities premiums	**972**	893	682
Decrease (increase) in accrued interest receivable	**333**	329	(257)
Decrease in accrued interest payable	**(433)**	(315)	(238)
Mortgage loans originated for sale	**(19,841)**	(32,316)	(15,414)
Proceeds from sales of loans originated for sale	**26,462**	26,262	18,403
(Increase) decrease in other assets	**(750)**	1,880	3,857
Decrease in other liabilities	**(291)**	(1,285)	(4,103)
Net Cash Provided by Operating Activities	**17,986**	9,303	18,154
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities of investment securities held to maturity	**8,970**	2,399	
Proceeds from maturities of investment securities available for sale	**37,606**	62,589	55,804
Purchase of investment securities available for sale	**(6,875)**	(19,676)	(71,830)
Purchase of investments held to maturity	**(53,689)**	(42,705)	
(Purchase) redemption of restricted investment in bank stocks	**(1,543)**	1,828	1,274
Net increase in loans	**(23,823)**	(19,521)	(37,672)
Investment in low-income housing partnerships	**(249)**	(2,106)	
Proceeds from sale of low-income housing partnerships	**476**		
Purchase of bank-owned life insurance	**(140)**	(1,940)	
Purchase of book of business	**(77)**		
Insurance agency acquisitions, net of cash acquired			(336)
Proceeds from life insurance death benefits		273	
Capital expenditures	**(2,212)**	(2,049)	(1,942)
Proceeds from sale of foreclosed real estate	**3,431**	3,111	6,416
Net Cash Used in Investing Activities	**(38,125)**	(17,797)	(48,286)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in demand deposits	**8,714**	7,050	8,783
Net (decrease) increase in time certificates of deposits and interest bearing deposits	**(42,247)**	44,331	27,486
Net increase in short-term borrowings	**1,749**	1,341	6,876
Proceeds from long-term borrowings	**37,000**	10,000	
Repayments on long-term borrowings	**(14,251)**	(21,237)	(10,308)
Dividends paid	**(4,542)**	(4,524)	(4,512)
Common stock issued	**447**	295	257

Net Cash (Used in) Provided by Financing Activities	**(13,130)**	37,256	28,582
Net (Decrease) Increase in Cash and Cash Equivalents	**(33,269)**	28,762	(1,550)
CASH AND CASH EQUIVALENTS BEGINNING	**51,385**	22,623	24,173
CASH AND CASH EQUIVALENTS ENDING	**$ 18,116**	$ 51,385	$ 22,623
Interest paid	**$ 4,422**	$ 6,410	$ 7,700
Income taxes paid	**$ 2,925**	$ 725	$ 1,700
Loans transferred to foreclosed assets held for resale	**$ 1,127**	$ 2,521	$ 3,290

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

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ACNB CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

ACNB Corporation (the Corporation or ACNB), headquartered in Gettysburg, Pennsylvania, provides banking, insurance, and financial services to businesses and consumers through its wholly-owned subsidiaries, ACNB Bank (Bank) and Russell Insurance Group, Inc. (RIG). The Bank engages in full-service commercial and consumer banking and trust services through its nineteen retail banking locations in Adams, Cumberland and York Counties, Pennsylvania. There is also a loan production office situated in Franklin County, Pennsylvania.

RIG is a full-service insurance agency, based in Westminster, Maryland. The agency offers a broad range of property and casualty, life, and health insurance to both commercial and individual clients. In 2008, due to an agency acquisition, a second location of RIG was established in Germantown, Maryland.

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 owned an insurance cell through which its premiums and losses from credit life, disability and accident insurance are funded. Each entity was responsible for the activity in its respective cell. The financial activity for the Corporation's insurance cell is included in the consolidated financial statements and is not material to the consolidated financial statements. The segregated portfolio was novated to a third party during 2012.

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 accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Corporation and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated.

Assets held by the Corporation's Trust Department in an agency or fiduciary capacity for its customers are excluded from the consolidated financial statements since they do not constitute assets of the Corporation. Assets held by the Trust Department amounted to $151,000,000 and $141,000,000 at December 31, 2013 and 2012, respectively. Income from fiduciary activities is recognized on the cash method, which approximates the accrual method.

Certain amounts previously reported have been reclassified, when necessary, to conform to the financial statement presentation for 2013. The reclassifications had no effect on net income or stockholders' equity.

The Corporation has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2013, for items that should potentially be recognized or disclosed in the consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

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NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Financial statements prepared in accordance with GAAP 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 consolidated 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, the valuation of deferred tax assets, the determination of other than temporary impairment on securities, and the potential impairment of goodwill.

Significant Group Concentrations of Credit Risk

Most of the Corporation's activities are with customers located within southcentral Pennsylvania and northern Maryland. Note C discusses the types of securities in which the Corporation invests. Note D discusses the types of lending in which the Corporation engages. Included in commercial real estate loans are loans made to lessors of non-residential dwellings that total $104,752,000, or 14.4%, of total loans at December 31, 2013. These borrowers are geographically disbursed throughout ACNB's marketplace and are leasing commercial properties to a varied group of tenants including medical offices, retail space and recreational facilities. Because of the varied nature of the tenants in aggregate, management believes that these loans do not present any greater risk than commercial loans in general.

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 90 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 (loss).

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 on debt securities, management considers (1) whether management intends to sell the security, or (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) if management does not expect to recover the entire amortized cost basis. In assessing potential other-than-temporary impairment for equity securities, consideration is given to management's intention and ability to hold the securities until recovery of unrealized losses. 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, which represents required investments in the common stock of correspondent banks, is carried at cost as of December 31, 2013 and 2012, and consists of common stock in the Atlantic Central Bankers Bank and Federal Home Loan Bank (FHLB).

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NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management evaluates the restricted investment in bank stocks for impairment in accordance with Accounting Standard Codification (ASC) Topic 942, *Financial Services Depository and Lending.* Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the correspondent bank as compared to the capital stock amount for the correspondent bank and the length of time this situation has persisted, (2) commitments by the correspondent bank to make payments required by law or regulation and the level of such payments in relation to the operating performance of the correspondent bank, (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the correspondent bank, and (4) the liquidity position of the correspondent bank.

Management believes no impairment charge was necessary related to the restricted investment in bank stocks during 2013, 2012 or 2011. However, security impairment analysis is completed quarterly, and the determination that no impairment has occurred during those years is no assurance that impairment may not occur in future periods.

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 commercial, residential, 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 loans receivable portfolio is segmented into commercial, residential mortgage, home equity lines of credit, and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate, and commercial real estate construction.

The accrual of interest on residential 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. Consumer loans (consisting of home equity lines of credit and consumer loan classes) 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,

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NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 status. 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 Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses (the "allowance") is established as losses and are estimated to occur 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 reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated statement of condition. The amount of the reserve for unfunded lending commitments is not material to the consolidated statements.

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 pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity, and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices;

national, regional and local economic and business conditions, as well as the condition of various market segments, including the impact on the value of underlying collateral for collateral dependent loans;

the nature and volume of the portfolio and terms of loans;

the experience, ability and depth of lending management and staff;

the volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications; and,

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NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the existence and effect of any concentrations of credit and changes in the level of such concentrations.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The unallocated component of the allowance 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. It covers risks that are inherently difficult to quantify including, but not limited to, collateral risk, information risk, and historical charge-off risk.

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 and/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/or 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 commercial 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.

A specific allocation within the allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of the Corporation's impaired loans are measured based on the estimated fair value of the loan's collateral or the discounted cash flows method.

It is the policy of the Corporation to order an updated valuation on all real estate secured loans when the loan becomes 90 days past due and there has not been an updated valuation completed within the previous 12 months. In addition, the Corporation orders third party valuations on all impaired real estate collateralized loans within 30 days of the loan being classified as impaired. Until the valuations are completed, the Corporation utilizes the most recent independent third party real estate valuation to estimate the need for a specific allocation to be assigned to the loan. These existing valuations are discounted downward to account for such things as the age of the existing collateral valuation, a change in the condition of the real estate, change in local market and economic conditions, and other specific factors involving the collateral. Once the updated valuation is completed, the collateral value is updated accordingly.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging reports, equipment appraisals, or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The Corporation actively monitors the values of collateral as well as the age of the valuation of impaired loans. Management believes that the Corporation's market area is not as volatile as other

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NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

areas throughout the United States, therefore valuations are ordered at least every 18 months, or more frequently if management believes that there is an indication that the fair value has declined.

For impaired loans secured by collateral other than real estate, the Corporation considers the net book value of the collateral, as recorded in the most recent financial statements of the borrower, and determines fair value based on estimates made by management.

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 troubled debt restructure.

Loans whose terms are modified are classified as troubled debt restructured loans if the Corporation grants such borrowers concessions that it would not otherwise consider and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, a below market interest rate given the risk associated with the loan, or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings may be restored to accrual status if principal and interest payments, under the modified terms, are current for a sustained period of time and, based on a well-documented credit evaluation of the borrower's financial condition, there is reasonable assurance of repayment. Loans classified as troubled debt restructurings are generally designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into credit quality rating categories. The borrower's overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are generally evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments.

Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, federal and state regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses and may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio and economic conditions, management believes the current level of the allowance for loan losses is adequate.

Commercial and Industrial Lending The Corporation originates commercial and industrial loans primarily to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes which include short-term loans and lines of credit to finance machinery and equipment purchases, inventory, and accounts receivable. Generally, the maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Most business lines of credit are written on demand and may be renewed annually.

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NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commercial and industrial loans are generally secured with short-term assets; however, in many cases, additional collateral such as real estate is provided as additional security for the loan. Loan-to-value maximum values have been established by the Corporation and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, collateral appraisals, etc.

In underwriting commercial and industrial loans, an analysis is performed to evaluate the borrower's character and capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as the conditions affecting the borrower. Evaluation of the borrower's past, present and future cash flows is also an important aspect of the Corporation's analysis.

Commercial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions.

Commercial Real Estate Lending The Corporation engages in commercial real estate lending in its primary market area and surrounding areas. The Corporation's commercial loan portfolio is secured primarily by commercial retail space, office buildings, and hotels. Generally, commercial real estate loans have terms that do not exceed 20 years, have loan-to-value ratios of up to 80% of the appraised value of the property, and are typically secured by personal guarantees of the borrowers.

In underwriting these loans, the Corporation performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Corporation are performed by independent appraisers.

Commercial real estate loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and the complexities involved in valuing the underlying collateral.

Commercial Real Estate Construction Lending The Corporation engages in commercial real estate construction lending in its primary market area and surrounding areas. The Corporation's commercial real estate construction lending consists of commercial and residential site development loans, as well as commercial building construction and residential housing construction loans.

The Corporation's commercial real estate construction loans are generally secured with the subject property. Terms of construction loans depend on the specifics of the project, such as estimated absorption rates, estimated time to complete, etc.

In underwriting commercial real estate construction loans, the Corporation performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the project using feasibility studies, market data, etc. Appraisals on properties securing commercial real estate construction loans originated by the Corporation are performed by independent appraisers.

Commercial real estate construction loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and the uncertainties surrounding total construction costs.

Residential Mortgage Lending One-to-four family residential mortgage loan originations, including home equity closed-end loans, are generated by the Corporation's marketing efforts, its present customers, walk-in customers, and referrals. These loans originate primarily within the Corporation's market area or with customers primarily from the market area.

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NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Corporation offers fixed-rate and adjustable-rate mortgage loans with terms up to a maximum of 30 years for both permanent structures and those under construction. The Corporation's one-to-four family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas. The majority of the Corporation's residential mortgage loans originate with a loan-to-value of 80% or less. Loans in excess of 80% are required to have private mortgage insurance.

In underwriting one-to-four family residential real estate loans, the Corporation evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Properties securing real estate loans made by the Corporation are appraised by independent appraisers. The Corporation generally requires borrowers to obtain an attorney's title opinion or title insurance, as well as fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. The Corporation has not engaged in subprime residential mortgage originations.

Residential mortgage loans present a moderate level of risk due primarily to general economic conditions, as well as a currently weakened housing market.

Home Equity Lines of Credit Lending The Corporation originates home equity lines of credit primarily within the Corporation's market area or with customers primarily from the market area. Home equity lines of credit are generated by the Corporation's marketing efforts, its present customers, walk-in customers, and referrals.

Home equity lines of credit are secured by the borrower's primary residence with a maximum loan-to-value of 90% and a maximum term of 20 years. In underwriting home equity lines of credit, a thorough analysis of the borrower's financial ability to repay the loan as agreed is performed. The ability to repay is determined by the borrower's employment history, current financial condition, and credit background.

Home equity lines of credit generally present a moderate level of risk due primarily to general economic conditions, as well as a continued weak housing market.

Junior liens inherently have more credit risk by virtue of the fact that another financial institution may have a higher security position in the case of foreclosure liquidation of collateral to extinguish the debt. Generally, foreclosure actions could become more prevalent if the real estate market continues to be weak and property values deteriorate.

Consumer Lending The Corporation offers a variety of secured and unsecured consumer loans, including those for vehicles and mobile homes and loans secured by savings deposits. These loans originate primarily within the Corporation's market area or with customers primarily from the market area.

Consumer loan terms vary according to the type and value of collateral and the creditworthiness of the borrower. In underwriting consumer loans, a thorough analysis of the borrower's financial ability to repay the loan as agreed is performed. The ability to repay shall be determined by the borrower's employment history, current financial condition, and credit background.

Consumer loans may entail greater credit risk than residential mortgage loans or home equity lines of credit, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and

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NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

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, less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are adjusted to the fair value, less costs to sell as necessary. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Premises and Equipment

Land is carried at cost. Buildings, furniture, fixtures, equipment and leasehold improvements are carried at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method over the assets' estimated useful lives. Maintenance and normal repairs are charged to expense when incurred while major additions and improvements are capitalized. Gains and losses on disposals are reflected in current operations. Amortization of leasehold improvements is computed by straight line over the shorter of the assets' useful life or the related lease term.

Investments in Low-Income Housing Partnerships

The Corporation's investments in low-income housing partnerships are accounted for using the "equity method" prescribed by ASC Topic 323, *Investments Equity Method*. In accordance with ASC Topic 740, *Income Taxes*, 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 income to the Corporation.

ASC Topic 715, *Compensation Retirement Benefits*, requires a liability to be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability is based on either the post-employment benefit cost for continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. The Corporation's liability is based on the post-employment benefit cost for continuing life insurance. The Corporation incurred approximately $47,000, $28,000, and $22,000 of expense in 2013, 2012, and 2011, respectively, related to these benefits.

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NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The Corporation accounts for income taxes in accordance with income tax accounting guidance ASC Topic 740, *Income Taxes*.

Current income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Corporation determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Corporation accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

The Corporation recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

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.

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NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Income per Share

The Corporation has a simple capital structure. Basic earnings per share of common stock is computed based on 5,976,960, 5,953,723 and 5,936,030 weighted average shares of common stock outstanding for 2013, 2012 and 2011, respectively.

Advertising Costs

Costs of advertising, which are included in marketing expenses, are expensed when incurred.

Intangible Assets

The Corporation accounts for its acquisitions using the purchase accounting method required by ASC Topic 805, *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.

ASC Topic 350, *Intangibles Goodwill and Other,* requires that goodwill is not amortized to expense, but rather that it be assessed for impairment at least annually. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. Impairment write-downs are charged to results of operations in the period in which the impairment is determined. During the quarter ended June 30, 2012, the Corporation changed its method of applying ASC 350, such that the annual goodwill impairment testing date was changed from December 31 to October 1. This new testing date is preferable in the circumstances, because it allowed the Corporation more time to accurately complete its impairment testing process in order to incorporate the results in the annual consolidated financial statements. The Corporation did not identify any impairment on its outstanding goodwill from its most recent testing, which was performed as of October 1, 2013. Other acquired intangible assets with finite lives, such as customer lists, are required to be amortized over the estimated lives. These intangibles are generally amortized using the straight line method over estimated useful lives of ten years.

Accumulated Other Comprehensive Income (Loss)

The components of the accumulated other comprehensive income (loss), net of taxes, are as follows:

In thousands	Unrealized Gains on Securities	Pension Liability	Accumulated Other Comprehensive Income (Loss)
BALANCE DECEMBER 31, 2013	**$ 2,572**	**$ (2,466)**	**$ 106**
BALANCE DECEMBER 31, 2012	$ 5,614	$ (5,826)	$ (212)

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

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NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 for commercial, retail and mortgage banking operations is not available and segment reporting would not be meaningful. Please refer to Note S "Segment and Related Information" for a discussion of insurance operations.

New Accounting Pronouncements

There were no new accounting pronouncements affecting the Corporation during the year ended December 31, 2013 that have not been adopted by the Corporation in previous periods. In addition, there are no recently issued accounting standards that are expected to have a material impact on the Corporation's consolidated financial statements in future periods.

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, 2013 and 2012, compensating balances approximated $1,673,000 and $1,969,000, respectively. During 2013 and 2012, average compensating balances approximated $2,181,000 and $2,327,000, respectively. All compensating balances are met by vault cash.

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NOTE C SECURITIES

Amortized cost and fair value at December 31, 2013 and 2012, were as follows:

In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
December 31, 2013				
U.S. Government and agencies	**$ 21,094**	**$ 557**	**$**	**$ 21,651**
Mortgage-backed securities, residential	**51,541**	**2,322**	**123**	**53,740**
State and municipal	**40,780**	**1,117**	**375**	**41,522**
Corporate bonds	**11,004**	**192**	**31**	**11,165**
CRA mutual fund	**1,044**		**11**	**1,033**
Stock in other banks	**627**	**245**		**872**
	$ 126,090	**$ 4,433**	**$ 540**	**$ 129,983**
December 31, 2012				
U.S. Government and agencies	$ 23,225	$ 1,016	$	$ 24,241
Mortgage-backed securities, residential	75,816	4,767		80,583
State and municipal	49,568	2,246	10	51,804
Corporate bonds	7,008	286	8	7,286
CRA mutual fund	1,044	52		1,096
Stock in other banks	627	153		780
	$ 157,288	$ 8,520	$ 18	$ 165,790
SECURITIES HELD TO MATURITY				
December 31, 2013				
U.S. Government and agencies	**$ 37,528**	**$ 142**	**$ 923**	**$ 36,747**
Mortgage-backed securities, residential	**56,845**	**40**	**1,550**	**55,335**
	$ 94,373	**$ 182**	**$ 2,473**	**$ 92,082**
December 31, 2012				
U.S. Government and agencies	$ 30,115	$ 536	$ 6	$ 30,645
Mortgage-backed securities, residential	$ 20,044	$ 298	$ 7	$ 20,335

$ 50,159	$ 834	$ 13	$ 50,980

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NOTE C SECURITIES (Continued)

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, 2013 and 2012:

	Less than 12 Months		12 Months or More		Total	
In thousands	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
SECURITIES AVAILABLE FOR SALE						
December 31, 2013						
Mortgage-backed securities, residential	**$ 6,944**	**$ 123**	**$**	**$**	**$ 6,944**	**$ 123**
State and municipal	**11,107**	**340**	**1,070**	**35**	**12,177**	**375**
Corporate bonds	**4,969**	**31**			**4,969**	**31**
CRA Mutual Fund	**1,033**	**11**			**1,033**	**11**
	$ 24,053	**$ 505**	**$ 1,070**	**$ 35**	**$ 25,123**	**$ 540**
December 31, 2012						
State and municipal	$ 1,975	$ 10	$	$	$ 1,975	$ 10
Corporate bond	992	8			992	8
	$ 2,967	$ 18	$	$	$ 2,967	$ 18
SECURITIES HELD TO MATURITY						
December 31, 2013						
U.S. Government and agencies	**$ 22,710**	**$ 812**	**$ 2,889**	**$ 111**	**$ 25,599**	**$ 923**
Mortgage-backed securities, residential	**45,891**	**1,446**	**1,755**	**104**	**47,646**	**1,550**
	$ 68,601	**$ 2,258**	**$ 4,644**	**$ 215**	**$ 73,245**	**$ 2,473**
December 31, 2012						
U.S. Government and agencies	$ 2,994	$ 6	$	$	$ 2,994	$ 6
Mortgage-backed security, residential	$ 2,046	$ 7	$	$	$ 2,046	$ 7
	$ 5,040	$ 13	$	$	$ 5,040	$ 13

All mortgage-backed security investments are government sponsored enterprise (GSE) pass-through instruments issued by the Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA) or Federal Home Loan Mortgage Corporation (FHLMC), which guarantee the timely payment of principal on these investments.

At December 31, 2013, seven available for sale residential mortgage-backed securities had unrealized losses that individually did not exceed 3% of amortized cost. These securities have not 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 the specific securities.

At December 31, 2013, twenty-six available for sale state and municipal securities had unrealized losses that individually did not exceed 8% of amortized cost. Three of these 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 the specific securities.

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NOTE C SECURITIES (Continued)

At December 31, 2013, one available for sale corporate bond had an unrealized loss and has not been in a continuous loss position for 12 months or more. This unrealized loss relates principally to changes in interest rates subsequent to the acquisition of the specific security. This security had an unrealized loss of less than 1% of amortized cost.

At December 31, 2013, the CRA Mutual Fund had an unrealized loss that individually did not exceed 2% of amortized cost. This security has not been in a continuous loss position for 12 months or more. This unrealized loss relates principally to changes in interest rates subsequent to the acquisition of the specific security.

At December 31, 2013, seventeen held to maturity U.S. Government and agency securities had unrealized losses that individually did not exceed 8% of amortized cost. Two of these 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 the specific securities.

At December 31, 2013, thirty held to maturity residential mortgage-backed securities had unrealized losses that individually did not exceed 8% of amortized cost. One of these securities has been in a continuous loss position for 12 months or more. This unrealized loss relates principally to changes in interest rates subsequent to the acquisition of the specific securities.

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. Based on the above information, management has determined that none of these investments are other-than-temporarily impaired.

The fair values of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the security's relationship to other benchmark quoted prices. The Corporation uses independent service providers to provide matrix pricing.

Management routinely sells securities from its available for sale portfolio in an effort to manage and allocate the portfolio. At December 31, 2013, management had not identified any securities with an unrealized loss that it intends to sell or will be required to sell. In estimating other-than-temporary impairment losses on debt securities, management considers (1) whether management intends to sell the security, or (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) if management does not expect to recover the entire amortized cost basis. In assessing potential other-than-temporary impairment for equity securities, consideration is given to management's intention and ability to hold the securities until recovery of unrealized losses.

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NOTE C SECURITIES (Continued)

Amortized cost and fair value at December 31, 2013, by contractual maturity, where applicable, 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	
In thousands	Amortized Cost	Fair Value	Amortized Cost	Fair Value
1 year or less	$ 5,824	$ 5,908	$ 10,006	$ 10,147
Over 1 year through 5 years	33,668	34,918	19,064	18,610
Over 5 years through 10 years	30,408	30,474	8,458	7,990
Over 10 years	2,978	3,038		
Mortgage-backed securities, residential	51,541	53,740	56,845	55,335
CRA mutual fund	1,044	1,033		
Stock in other banks	627	872		
	$ 126,090	$ 129,983	$ 94,373	$ 92,082

The Corporation realized gross gains of $0 during 2013, $7,000 during 2012, and $1,000 during 2011 and gross losses of $0 during 2013, 2012, and 2011 on sales or calls of securities available for sale.

At December 31, 2013 and 2012, securities with a carrying value of $139,966,000 and $147,923,000, respectively, were pledged as collateral as required by law on public and trust deposits, repurchase agreements, and for other purposes.

NOTE D LOANS

The Corporation 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.

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NOTE D LOANS (Continued)

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Corporation's internal risk rating system as of December 31, 2013 and 2012:

In thousands	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2013					
Commercial and industrial	**$ 53,316**	**$ 2,364**	**$ 3,537**	**$**	**$ 59,217**
Commercial real estate	**193,162**	**29,655**	**16,369**		**239,186**
Commercial real estate construction	**5,123**	**5,018**	**1,055**		**11,196**
Residential mortgage	**344,847**	**2,551**	**3,611**		**351,009**
Home equity lines of credit	**53,021**	**608**	**223**		**53,852**
Consumer	**14,188**				**14,188**
Total	**$ 663,657**	**$ 40,196**	**$ 24,795**	**$**	**$ 728,648**
December 31, 2012					
Commercial and industrial	$ 44,072	$ 2,491	$ 2,441	$	$ 49,004
Commercial real estate	205,449	20,379	17,191		243,019
Commercial real estate construction	7,354	9,820	1,980		19,154
Residential mortgage	321,986	4,502	2,348		328,836
Home equity lines of credit	51,096	1,776	258		53,130
Consumer	14,993				14,993
Total	$ 644,950	$ 38,968	$ 24,218	$	$ 708,136

The following table summarizes information relative to impaired loans by loan portfolio class as of December 31, 2013 and 2012:

	Impaired Loans with Allowance			Impaired Loans with No Allowance	
In thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
December 31, 2013					
Commercial and industrial	**$**	**$**	**$**	**$ 1,574**	**$ 2,688**
Commercial real estate				**11,197**	**11,758**
Commercial real estate construction				**788**	**1,062**
Residential mortgage	**1,478**	**1,478**	**201**	**675**	**712**
Total	**$ 1,478**	**$ 1,478**	**$ 201**	**$ 14,234**	**$ 16,220**
December 31, 2012					

Commercial and industrial	$ 146	$ 146	$ 29	$ 195	$ 1,310
Commercial real estate	237	276	7	8,772	9,216
Commercial real estate construction				854	1,128
Residential mortgage				938	1,263
Total	$ 383	$ 422	$ 36	$ 10,759	$ 12,917

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NOTE D LOANS (Continued)

The following table summarizes information in regards to average of impaired loans and related interest income by loan portfolio class:

In thousands	Impaired Loans with Allowance: Average Recorded Investment	Impaired Loans with Allowance: Interest Income	Impaired Loans with No Allowance: Average Recorded Investment	Impaired Loans with No Allowance: Interest Income
December 31, 2013				
Commercial and industrial	**$ 58**	**$**	**$ 466**	**$**
Commercial real estate	**95**		**11,237**	**529**
Commercial real estate construction			**3,558**	**209**
Residential mortgage	**833**		**1,119**	**10**
Total	**$ 986**	**$**	**$ 16,380**	**$ 748**
December 31, 2012				
Commercial and industrial	$ 431	$	$ 223	$
Commercial real estate	691		8,193	11
Commercial real estate construction	336		1,242	
Residential mortgage	18		1,390	
Total	$ 1,476	$	$ 11,048	$ 11
December 31, 2011				
Commercial and industrial	$ 1,019	$	$ 349	$
Commercial real estate	2,324		4,946	44
Commercial real estate construction			3,463	
Residential mortgage	340		1,119	
Total	$ 3,683	$	$ 9,877	$ 44

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

If interest on all nonaccrual loans had been accrued at original contract rates, interest income would have increased by $704,000 in 2013, $543,000 in 2012, and $652,000 in 2011.

The following table presents nonaccrual loans by loan portfolio class as of December 31, 2013 and 2012:

In thousands	2013	2012

Commercial and industrial	**$**	**1,574**	$	342
Commercial real estate		**4,363**		4,514
Commercial real estate construction		**788**		854
Residential mortgage		**1,848**		617
Total	**$**	**8,573**	$	6,327

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NOTE D LOANS (Continued)

The following table summarizes information relative to troubled debt restructurings by loan portfolio class at December 31, 2013 and 2012:

In thousands	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment at period end
December 31, 2013			
Nonaccruing troubled debt restructurings:			
Commercial and industrial	**$ 490**	**$ 485**	**$ 142**
Commercial real estate	**1,021**	**1,021**	**634**
Commercial real estate construction	**1,548**	**1,541**	**694**
Residential mortgage	**566**	**566**	**566**
Total nonaccruing troubled debt restructurings	**3,625**	**3,613**	**2,036**
Accruing troubled debt restructurings:			
Commercial real estate	**7,118**	**7,170**	**6,834**
Residential mortgage	**336**	**336**	**305**
Total accruing troubled debt restructurings	**7,454**	**7,506**	**7,139**
Total Troubled Debt Restructurings	**$ 11,079**	**$ 11,119**	**$ 9,175**
December 31, 2012			
Nonaccruing troubled debt restructurings:			
Commercial and industrial	$ 490	$ 485	$ 187
Commercial real estate	1,304	1,304	953
Commercial real estate construction	1,548	1,541	760
Total nonaccruing troubled debt restructurings	$ 3,342	$ 3,330	$ 1,900
Accruing troubled debt restructurings:			
Commercial real estate	$ 4,577	$ 4,577	$ 4,494
Residential mortgage	336	336	321
Total accruing troubled debt restructurings	4,913	4,913	4,815
Total Troubled Debt Restructurings	$ 8,255	$ 8,243	$ 6,715

All of the Corporation's troubled debt restructured loans are also impaired loans, of which some have resulted in a specific allocation and, subsequently, a charge-off as appropriate. During the year ended December 31, 2013, one troubled debt restructured loan defaulted in the amount of $237,000 and all other troubled debt restructured loans were current with respect to their associated forbearance agreement. As of December 31, 2013, charge-offs associated with troubled debt restructured loans while under a forbearance agreement totaled $353,000. As of December 31, 2012, there was one defaulted troubled debt restructure and all other troubled debt restructured loans were current with respect to their associated forbearance agreements. One forbearance agreement was negotiated during 2009 and modified during 2011, two were negotiated during 2010 and modified during 2013, three were negotiated during 2012, while two were negotiated during 2013.

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NOTE D LOANS (Continued)

There are forbearance agreements on all loans currently classified as troubled debt restructurings, except for two loans in which the forbearance agreement has expired and one loan in which a modification took place, all of which remain classified as troubled debt restructured loans. All of these troubled debt restructured loans have resulted in additional principal repayment. The terms of these troubled debt restructured loans vary whereby principal payments have been decreased, interest rates have been reduced, and/or the loan will be repaid as collateral is sold.

The following table summarizes loans whose terms have been modified resulting in troubled debt restructurings during the years ended December 31, 2013 and 2012:

Dollars in thousands	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment at period end
2013				
Troubled debt restructurings:				
Commercial real estate	**1**	**$ 2,541**	**$ 2,593**	**$ 2,542**
Residential mortgage	**1**	**566**	**566**	**566**
2012				
Troubled debt restructurings:				
Commercial real estate	2	$ 5,225	$ 5,225	$ 5,099
Residential mortgage	1	336	336	321

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due.

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NOTE D LOANS (Continued)

The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2013 and 2012:

In thousands	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
December 31, 2013							
Commercial and industrial	**$ 55**	**$ 13**	**$ 152**	**$ 220**	**$ 58,997**	**$ 59,217**	**$ 3**
Commercial real estate	**857**	**552**	**1,964**	**3,373**	**235,813**	**239,186**	
Commercial real estate construction			**788**	**788**	**10,408**	**11,196**	
Residential mortgage	**4,728**	**795**	**3,148**	**8,671**	**342,338**	**351,009**	**1,900**
Home equity lines of credit	**260**	**36**	**14**	**310**	**53,542**	**53,852**	**14**
Consumer	**22**	**15**	**9**	**46**	**14,142**	**14,188**	**9**
Total	**$ 5,922**	**$ 1,411**	**$ 6,075**	**$ 13,408**	**$ 715,240**	**$ 728,648**	**$ 1,926**
December 31, 2012							
Commercial and industrial	$ 128	$	$ 342	$ 470	$ 48,534	$ 49,004	$ 1
Commercial real estate	757	1,569	1,502	3,828	239,191	243,019	6
Commercial real estate construction			854	854	18,300	19,154	
Residential mortgage	4,197	2,425	1,339	7,961	320,875	328,836	721
Home equity lines of credit	353	10	43	406	52,724	53,130	43
Consumer	8	4		12	14,981	14,993	
Total	$ 5,443	$ 4,008	$ 4,080	$ 13,531	$ 694,605	$ 708,136	$ 771

The following table summarizes the allowance for loan losses and recorded investment in financing receivables:

In thousands	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction	Residential Mortgage	Home Equity Lines of Credit	Consumer	Unallocated	Total
December 31, 2013								
Allowance for loan losses								
Beginning balance-January 1, 2013	**$ 1,507**	**$ 6,576**	**$ 518**	**$ 3,721**	**$ 517**	**$ 633**	**$ 3,353**	**$ 16,825**
Charge-offs	**(178)**	**(996)**		**(1,062)**		**(191)**		**(2,427)**
Recoveries	**235**			**4**		**4**		**243**
Provisions	**351**	**239**	**(271)**	**1,350**	**20**	**501**	**(740)**	**1,450**
Ending balance-December 31, 2013	**$ 1,915**	**$ 5,819**	**$ 247**	**$ 4,013**	**$ 537**	**$ 947**	**$ 2,613**	**$ 16,091**

Ending balance: individually evaluated for impairment	$	$	$	$ 201	$	$	$	$ 201
Ending balance: collectively evaluated for impairment	$ 1,915	$ 5,819	$ 247	$ 3,812	$ 537	$ 947	$ 2,613	$ 15,890
Loans receivables								
Ending balance	$ 59,217	$ 239,186	$ 11,196	$ 351,009	$ 53,852	$ 14,188	$	$ 728,648
Ending balance: individually evaluated for impairment	$ 1,574	$ 11,197	$ 788	$ 2,153	$	$	$	$ 15,712
Ending balance: collectively evaluated for impairment	$ 57,643	$ 227,989	$ 10,408	$ 348,856	$ 53,852	$ 14,188	$	$ 712,936

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NOTE D LOANS (Continued)

In thousands	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction	Residential Mortgage	Home Equity Lines of Credit	Consumer	Unallocated	Total
December 31, 2012								
Allowance for loan losses								
Beginning balance-January 1, 2012	$ 2,582	$ 6,007	$ 548	$ 3,624	$ 507	$ 419	$ 1,795	$ 15,482
Charge-offs	(2,180)	(417)	(538)	(500)	(51)	(71)		(3,757)
Recoveries	22	250	149	1		3		425
Provisions	1,083	736	359	596	61	282	1,558	4,675
Ending balance-December 31, 2012	$ 1,507	$ 6,576	$ 518	$ 3,721	$ 517	$ 633	$ 3,353	$ 16,825
Ending balance: individually evaluated for impairment	$ 29	$ 7	$	$	$	$	$	$ 36
Ending balance: collectively evaluated for impairment	$ 1,478	$ 6,569	$ 518	$ 3,721	$ 517	$ 633	$ 3,353	$ 16,789
Loans receivables								
Ending balance	$ 49,004	$ 243,019	$ 19,154	$ 328,836	$ 53,130	$ 14,993	$	$ 708,136
Ending balance: individually evaluated for impairment	$ 341	$ 9,009	$ 854	$ 938	$	$	$	$ 11,142
Ending balance: collectively evaluated for impairment	$ 48,663	$ 234,010	$ 18,300	$ 327,898	$ 53,130	$ 14,993	$	$ 696,994
December 31, 2011								
Allowance for loan losses								
Beginning balance-January 1, 2011	$ 2,074	$ 6,346	$ 1,154	$ 3,108	$ 341	$ 520	$ 1,709	$ 15,252
Charge-offs	(1,861)	(1,308)	(1,242)	(750)	(52)	(30)		(5,243)
Recoveries	34			2		2		38
Provisions	2,335	969	636	1,264	218	(73)	86	5,435

Ending balance-December 31, 2011	$ 2,582	$ 6,007	$ 548	$ 3,624	$ 507	$ 419	$ 1,795	$ 15,482
Ending balance: individually evaluated for impairment	$ 1,085	$ 43	$	$ 53	$	$	$	$ 1,181
Ending balance: collectively evaluated for impairment	$ 1,497	$ 5,964	$ 548	$ 3,571	$ 507	$ 419	$ 1,795	$ 14,301
Loans receivables								
Ending balance	$ 56,145	$ 236,017	$ 22,757	$ 311,266	$ 52,532	$ 15,751	$	$ 694,468
Ending balance: individually evaluated for impairment	$ 2,219	$ 6,612	$ 2,614	$ 1,401	$	$	$	$ 12,846
Ending balance: collectively evaluated for impairment	$ 53,926	$ 229,405	$ 20,143	$ 309,865	$ 52,532	$ 15,751	$	$ 681,622

The Bank has granted loans to certain of its executive officers, directors and their related interests. These loans were made on substantially the same basis, including interests rates and collateral as those prevailing for comparable transactions with other borrowers at the same time. The aggregate amount of these loans was $14,969,000 and $12,351,000 at December 31, 2013 and 2012, respectively. During 2013, $4,476,000 of new loans and advances were extended and repayments totaled $1,858,000. None of these loans were past due, in nonaccrual status, or restructured at December 31, 2013.

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NOTE E PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

In thousands	2013	2012
Land	**$ 2,591**	$ 2,591
Buildings and improvements	**17,060**	17,004
Furniture and equipment	**12,946**	12,820
Construction in process	**1,959**	13
	34,556	32,428
Accumulated depreciation	**(18,565)**	(17,297)
	$ 15,991	$ 15,131

Depreciation expense was $1,352,000, $1,401,000 and $1,578,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

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, 2013 and 2012, the carrying value of these investments was approximately $4,687,000 and $5,440,000, respectively.

NOTE G DEPOSITS

Deposits were comprised of the following as of December 31:

In thousands	2013	2012
Non-interest bearing demand	**$ 128,011**	$ 119,297
Interest bearing demand	**115,014**	122,717
Savings	**321,818**	320,454
Time certificates of deposit less than $100,000	**165,491**	191,019
Time certificates of deposit greater than $100,000	**70,309**	80,689
	$ 800,643	$ 834,176

Scheduled maturities of time certificates of deposit at December 31, 2013, were as follows:

Years Ending	In thousands
2014	$ 152,255
2015	34,252
2016	41,156
2017	4,162
2018	3,975

$	235,800

NOTE H LEASE COMMITMENTS

Certain branch offices and equipment are leased under agreements which expire at varying dates through 2024. Most leases contain renewal provisions at the Corporation's option. The total rental expense for all operating leases was $468,000, $424,000 and $405,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

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NOTE H LEASE COMMITMENTS (Continued)

The following is a schedule by year 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:

Years Ending	In thousands
2014	$ 413
2015	343
2016	230
2017	86
2018	86
Later years	303
	$ 1,461

ACNB leases space at several of its owned offices to other unrelated organizations under agreements that expire at varying dates in 2014. Most leases contain renewal provisions at the option of the lessee. Total rental income for these properties was $138,000, $133,000 and $130,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

NOTE I BORROWINGS

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

	2013		2012	
Dollars in thousands	Amount	Rate	Amount	Rate
FHLB overnight advance	**$ 6,800**	**0.25%**	$	%
Securities sold under repurchase agreements	**42,252**	**0.12%**	47,303	0.14%
	$ 49,052	**0.14%**	$ 47,303	0.14%

Under an agreement with the FHLB, the Bank has short-term borrowing capacity included within its maximum borrowing capacity. 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 Bank having a par value of $6,563,000 at December 31, 2013. The Corporation also has average lines of credit that total $15,000,000 with correspondent banks for overnight federal funds borrowings. There were no advances on these lines at December 31, 2013 and 2012.

The Corporation enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Corporation may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Corporation to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing agreements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Corporation's consolidated statements of condition, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Corporation does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

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NOTE I BORROWINGS (Continued)

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Corporation be in default (e.g., fails to make an interest payment to the counterparty). For private institution repurchase agreements, if the private institution counterparty were to default (e.g., declare bankruptcy), the Corporation could cancel the repurchase agreement (i.e., cease payment of principal and interest), and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value. The collateral is held by a third-party financial institution in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities. For government entity repurchase agreements, the collateral is held by the Corporation in a segregated custodial account under a tri-party agreement.

The following table presents the liabilities subject to an enforceable master netting arrangement or repurchase agreements as of December 31, 2013 and 2012:

Dollars in thousands	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Condition	Net Amounts of Liabilities Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition		
				Financial Instruments	Cash Collateral Pledged	Net Amount
December 31, 2013						
Repurchase agreements						
Commercial customers and government entities(a)	**$ 42,252**	**$**	**$ 42,252**	**$ (42,252)**	**$**	**$**
December 31, 2012						
Repurchase agreements						
Commercial customers and government entities(a)	$ 47,303	$	$ 47,303	$ (47,303)	$	$

(a) As of December 31, 2013 and 2012, the fair value of securities pledged in connection with repurchase agreements was $60,823,000 and $56,392,000, respectively.

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

	2013		2012	
Dollars in thousands	**Amount**	**Rate**	**Amount**	**Rate**
FHLB fixed-rate advances maturing:				
2013	**$**	**%**	$ 14,000	2.55%
2014	**29,000**	**1.51%**	14,000	2.73%
2015	**21,000**	**2.50%**	15,000	3.25%
2016	**15,000**	**2.19%**	9,000	2.56%
2017	**6,000**	**3.76%**	4,000	4.86%
2018	**10,000**	**2.48%**	2,000	5.11%
Loan payable to local bank	**1,703**	**6.02%**	1,954	5.96%
	$ 82,703	**3.08%**	$ 59,954	3.86%

The FHLB advances are collateralized by the assets defined in security agreement and FHLB capital stock described previously. The Corporation can borrow a maximum of $420,550,000 from the FHLB, of which $332,750,000 was available at December 31, 2013.

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NOTE I BORROWINGS (Continued)

The loan payable to a local bank is payable in monthly installments of $29,472 and matures in April 2016. The loan is unsecured.

NOTE J REGULATORY RESTRICTIONS ON DIVIDENDS

Dividend payments by the Bank to the Corporation are subject to the Pennsylvania Banking Code, the Federal Deposit Insurance Act, and the regulations of the FDIC. Under the Banking Code, no dividends may be paid except from "accumulated net earnings" (generally, retained earnings). The Federal Reserve Board and the FDIC have formal and informal policies which provide that insured banks and bank holding companies should generally pay dividends only out of current operating earnings, with some exceptions. As of December 31, 2013, $10,772,000 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.

NOTE K INCOME TAXES

The components of income tax expense for the years ended December 31, 2013, 2012 and 2011, are as follows:

In thousands	2013	2012	2011
Federal:			
Current	**$ 1,800**	$ 2,163	$ 1,816
Deferred	**693**	108	279
	2,493	2,271	2,095
State:			
Current	**42**	48	59
	$ 2,535	$ 2,319	$ 2,154

Reconciliations of the statutory federal income tax at a rate of 34% to the income tax expense reported in the consolidated statements of income for the years ended December 31, 2013, 2012 and 2011, are as follows:

	Percentage of Income before Income Taxes		
	2013	2012	2011
Federal income tax at statutory rate	**34.0%**	34.0%	34.0%
State income taxes, net of federal benefit	**0.2%**	0.2%	0.4%
Tax-exempt income	**(4.6)%**	(5.9)%	(6.0)%
Earnings on investment in bank-owned life insurance	**(2.8)%**	(3.0)%	(3.1)%
Rehabilitation and low-income housing credits	**(5.7)%**	(4.9)%	(5.2)%
Other	**0.3%**	0.3%	0.1%
	21.4%	20.7%	20.2%

The provision for federal income taxes includes $0, $2,000 and $0 of income taxes related to net gains on sales of securities in 2013, 2012 and 2011, respectively. Rehabilitation and low-income housing income tax credits were $678,000, $556,000, and $556,000 during 2013, 2012 and 2011, respectively. Projected credits are $648,000 in 2014, $299,000 in 2015, and $2,025,000 thereafter.

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NOTE K INCOME TAXES (Continued)

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

In thousands	2013	2012
Deferred tax assets:		
Allowance for loan losses	**$ 5,471**	$ 5,721
Accrued deferred compensation	**806**	726
Pension	**1,269**	3,000
Deferred loan fees	**5**	16
Other-than-temporary impairment	**178**	178
Low-income housing tax credit carryforward	**287**	195
Nonaccrual interest	**191**	183
Director deferred liability	**419**	351
Other	**387**	468
	9,013	10,838
Deferred tax liabilities:		
Available for sale securities	**1,323**	2,891
Prepaid pension benefit cost	**5,488**	4,741
Prepaid expenses	**237**	213
Accumulated depreciation	**358**	558
Goodwill/intangibles	**677**	649
	8,083	9,052
Net Deferred Tax Asset	**$ 930**	$ 1,786

The Corporation has a federal tax credit carryforward totaling $287,000 related to low income housing credits that expires in 2032.

The Corporation did not have any uncertain tax positions at December 31, 2013 and 2012. The Corporation's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the Consolidated Statements of Income.

Years that remain open for potential review by the Internal Revenue Service are 2010 through 2013.

NOTE L FAIR VALUE MEASUREMENTS

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 reporting dates and have not been reevaluated 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 period end.

Fair value measurement and disclosure guidance defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under

current market conditions.

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NOTE L FAIR VALUE MEASUREMENTS (Continued)

Fair value measurement and disclosure guidance provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with fair value measurement and disclosure guidance.

This guidance further clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The guidance provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

Fair value measurement and disclosure guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets measured at fair value, the fair value measurements by level within the fair value hierarchy, and the basis on measurement used at December 31, 2013 and 2012, are as follows:

		Fair Value Measurements at December 31, 2013			
In thousands	**Basis**	**Total**	**Level 1**	**Level 2**	**Level 3**
U.S. Government and agencies		$ 21,651	$	$ 21,651	$
Mortgage-backed securities, residential		53,740		53,740	
State and municipal		41,522		41,522	
Corporate bonds		11,165		11,165	
CRA mutual fund		1,033	1,033		
Stock in other banks		872	872		
Total securities available for sale	**Recurring**	$ 129,983	$ 1,905	$ 128,078	$
Impaired loans	**Non-recurring**	$ 6,887	$	$	$ 6,887
Foreclosed assets held for resale	**Non-recurring**	$ 413	$	$	$ 413

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NOTE L FAIR VALUE MEASUREMENTS (Continued)

		Fair Value Measurements at December 31, 2012			
In thousands	**Basis**	**Total**	**Level 1**	**Level 2**	**Level 3**
U.S. Government and agencies		$ 24,241	$	$ 24,241	$
Mortgage-backed securities, residential		80,583		80,583	
State and municipal		51,804		51,804	
Corporate bonds		7,286		7,286	
CRA mutual fund		1,096	1,096		
Stock in other banks		780	780		
Total securities available for sale	Recurring	$ 165,790	$ 1,876	$ 163,914	$
Impaired loans	Non-recurring	$ 2,415	$	$	$ 2,415
Foreclosed assets held for resale	Non-recurring	$ 2,338	$	$	$ 2,338

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Corporation has utilized Level 3 inputs to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements				
Dollars in thousands	**Fair Value Estimate**	**Valuation Technique**	**Unobservable Input**	**Range**	**Weighted Average**
December 31, 2013					
Impaired loans	**$ 6,887**	**Appraisal of collateral(1)**	**Appraisal adjustments(2)**	**(10) - (50)%**	**(19)%**
Foreclosed assets held for resale	**$ 413**	**Appraisal of collateral(1)(3)**	**Appraisal adjustments(2)**	**(10) - (50)%**	**(35)%**
December 31, 2012					
Impaired loans	$ 2,415	Appraisal of collateral(1)	Appraisal adjustments(2)	(10) - (50)%	(16)%
Foreclosed assets held for resale	$ 2,338	Appraisal of collateral(1)(3)	Appraisal adjustments(2)	(10) - (50)%	(40)%

(1) Fair value is generally determined through independent third-party appraisals of the underlying collateral, which generally includes various Level 3 inputs which are not observable.

(2)

Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percentage of the appraisal. Higher downward adjustments are caused by negative changes to the collateral or conditions in the real estate market, actual offers or sales contracts received, or age of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

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. The following methods and assumptions were used to estimate the fair values of certain Corporation assets and liabilities at December 31, 2013 and 2012:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the consolidated statement of condition for cash and short-term instruments approximate those assets' fair value. U.S. currency is Level 1 and cash equivalents are Level 2.

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NOTE L FAIR VALUE MEASUREMENTS (Continued)

Securities

The fair values of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific security but rather by relying on the security's relationship to other benchmark quoted prices. The Corporation uses an independent service provider to provide matrix pricing, and uses the valuation of another provider to compare for reasonableness.

Loans Held for Sale (Carried at Lower of Cost or Fair Value)

The fair values of mortgage loans held for sale are determined based on amounts to be received at settlement by establishing the respective buyer requirement or market interest rates.

Loans (Carried at Cost)

The fair values of loans are estimated using discounted cash flow analyses, as well as using market rates at the balance sheet date that reflect the credit and interest rate risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments, and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Loans for which the Corporation has measured impairment are generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances less the valuation allowance and/or charge-offs.

Foreclosed Assets Held for Resale

The fair value of real estate acquired through foreclosure is based on independent third-party appraisals of the properties. These assets are included as Level 3 fair values, based upon appraisals that consider the sales prices of similar properties in the proximate vicinity.

It is the policy of the Corporation to have the initial market value of a foreclosed asset held for resale determined by an independent third party valuation. If the Corporation already has a valid appraisal on file for the property and that appraisal has been completed within the previous 12 months, another appraisal shall not be required when the Corporation acquires ownership of that real estate. Further, the Corporation shall update the market value of each foreclosed asset with an independent third party valuation at least every 18 months, or more frequently if management believes that there is an indication that the fair value has declined. These valuations may be adjusted downward to account for specialized use of the property, change in the condition of the real estate, change in local market and economic conditions, and other specific factors involving the collateral.

Restricted Investment in Bank Stock (Carried at Cost)

The carrying amount of required and restricted investment in correspondent bank stock approximates fair value, and considers the limited marketability of such securities.

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NOTE L FAIR VALUE MEASUREMENTS (Continued)

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amounts of accrued interest receivable and accrued interest payable approximate their fair value.

Deposits (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (e.g., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-Term Borrowings (Carried at Cost)

The carrying amounts of short-term borrowings approximate their fair values.

Long-Term Borrowings (Carried at Cost)

The fair values of Federal Home Loan Bank (FHLB) advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms, and remaining maturity. The prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance Sheet Credit-Related Instruments

The fair values for the Corporation's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

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NOTE L FAIR VALUE MEASUREMENTS (Continued)

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Corporation's financial instruments at December 31, 2013 and 2012:

	December 31, 2013				
In thousands	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	**$ 13,963**	**$ 13,963**	**$ 7,755**	**$ 6,208**	**$**
Interest-bearing deposits in banks	**4,153**	**4,153**	**4,153**		
Investment securities available for sale	**129,983**	**129,983**	**1,905**	**128,078**	
Investment securities held to maturity	**94,373**	**92,082**		**92,082**	
Loans held for sale	**496**	**496**		**496**	
Loans, less allowance for loan losses	**712,557**	**724,937**			**724,937**
Accrued interest receivable	**3,027**	**3,027**		**3,027**	
Restricted investment in bank stocks	**6,861**	**6,861**		**6,861**	
Financial liabilities:					
Deposits	**800,643**	**801,063**		**801,063**	
Short-term borrowings	**49,052**	**49,052**		**49,052**	
Long-term borrowings	**82,703**	**84,558**		**84,558**	
Accrued interest payable	**681**	**681**		**681**	
Off-balance sheet financial instruments					

	December 31, 2012				
In thousands	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 19,078	$ 19,078	$ 5,832	$ 13,246	$
Interest-bearing deposits in banks	32,307	32,307	32,307		
Investment securities available for sale	165,790	165,790	1,876	163,914	
Investment securities held to maturity	50,159	50,980		50,980	
Loans held for sale	6,687	6,687		6,687	
Loans, less allowance for loan losses	691,311	724,982			724,982
Accrued interest receivable	3,360	3,360		3,360	
Restricted investment in bank stocks	5,318	5,318		5,318	
Financial liabilities:					
Deposits	834,176	835,640		835,640	
Short-term borrowings	47,303	47,303		47,303	
Long-term borrowings	59,954	62,296		62,296	
Accrued interest payable	1,114	1,114		1,114	
Off-balance sheet financial instruments					

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NOTE M RETIREMENT PLANS

The Corporation's banking subsidiary has a non-contributory, defined benefit 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.

A measurement date of December 31 has been used for the fiscal year ending December 31, 2013 and 2012.

In thousands	**2013**	**2012**
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 24,297**	$ 20,989
Service cost	**774**	651
Interest cost	**894**	925
Actuarial (gain) loss	**(2,725)**	2,590
Benefits paid	**(937)**	(858)
Benefit obligation at end of year	**22,303**	24,297
Change in plan assets:		
Fair value of plan assets at beginning of year	**29,418**	25,451
Actual return on plan assets	**3,631**	2,969
Employer contribution	**2,599**	1,856
Benefits paid	**(937)**	(858)
Fair value of plan assets at end of year	**34,711**	29,418
Funded Status, included in other assets	**$ 12,408**	$ 5,121
Amounts recognized in accumulated other comprehensive income:		
Total net actuarial loss	**$ 3,667**	$ 8,719
Prior service cost	**65**	105
Total included in accumulated other comprehensive income (pretax)	**$ 3,732**	$ 8,824

The estimated costs that will be amortized from accumulated other comprehensive income into net periodic pension cost during the next fiscal year are as follows:

In thousands	
Net loss	$ 22
Prior service cost	40
	$ 62

The accumulated benefit obligation totaled $21,713,000 and $23,757,000 at December 31, 2013 and 2012, respectively.

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NOTE M RETIREMENT PLANS (Continued)

The components of net periodic benefit costs (income) related to the non-contributory, defined benefit pension plan for the years ended December 31 are as follows:

In thousands	2013	2012	2011
Components of net periodic benefit cost (income):			
Service cost	**$ 774**	$ 651	$ 570
Interest cost	**894**	925	962
Expected return on plan assets	**(1,957)**	(1,772)	(1,829)
Recognized net actuarial loss	**652**	611	140
Amortization of transition liability		10	12
Amortization of prior service cost	**40**	40	40
Net Periodic Benefit Cost (Income)	**403**	465	(105)
Net (gain) loss	**(4,400)**	1,393	4,130
Amortization of net loss	**(652)**	(611)	(140)
Amortization of transition liability		(10)	(12)
Amortization of prior service cost	**(40)**	(40)	(40)
Total recognized in other comprehensive (income) loss	**$ (5,092)**	$ 732	$ 3,938
Total recognized in net periodic benefit cost (income) and other comprehensive (income) loss	**$ (4,689)**	$ 1,197	$ 3,833

For the years ended December 31, 2013, 2012 and 2011, the assumptions used to determine the benefit obligation are as follows:

	2013	2012	2011
Discount rate	**4.75%**	3.75%	4.50%
Rate of compensation increase	**3.75%**	3.75%	4.00%

For the years ended December 31, 2013, 2012 and 2011, the assumptions used to determine the net periodic benefit cost (income) are as follows:

	2013	2012	2011
Discount rate	**3.75%**	4.50%	5.50%
Expected long-term rate of return on plan assets	**6.75%**	7.00%	7.50%
Rate of compensation increase	**3.75%**	4.00%	3.58%

The Corporation's pension plan weighted-average assets' allocations at December 31, 2013 and 2012, are as follows:

	2013	2012
Equity securities	**46%**	45%
Debt securities	**45%**	45%
Short-term fixed income	**4%**	6%
Real estate	**5%**	4%
	100%	100%

The Corporation's overall investment strategy is to achieve a mix of investments to meet the long-term rate of return assumption and near-term pension obligations with a diversification of assets types, fund strategies and fund managers. The mix of investments is adjusted periodically by retaining

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NOTE M RETIREMENT PLANS (Continued)

an advisory firm to recommend appropriate allocations after reviewing the Corporation's risk tolerance on contribution levels, funded status and plan expense, and any applicable regulatory requirements. The weighted-average assets' allocation in the above table represents the Corporation's conclusion on the appropriate mix of investments. The specific investment vehicles are institutional separate accounts from a variety of fund managers which are regularly reviewed by the Corporation for acceptable performance.

Equity securities included Corporation common stock in amounts of $1,128,000, or 3% of total plan assets, and $967,000, or 3% of total plan assets, at December 31, 2013 and 2012, respectively.

Fair value measurements at December 31, 2013, are as follows:

In thousands	Total	Level 1	Level 2	Level 3
Equity securities	**$ 17,385**	**$ 1,128**	**$ 16,257**	**$**
Debt securities	**15,754**		**15,754**	
Real estate	**1,572**		**1,572**	

Fair value measurements at December 31, 2012, are as follows:

In thousands	Total	Level 1	Level 2	Level 3
Equity securities	$ 14,951	$ 967	$ 13,984	$
Debt securities	13,155		13,155	
Real estate	1,312		1,312	

It has not yet been determined the amount that the Bank may contribute to the Plan in 2014. The Corporation reduced the future benefit accruals for the defined benefit pension plan effective January 1, 2010, in order to manage total benefit expense. The new formula is the earned benefit as of December 31, 2009, plus 0.75% of a participant's average monthly pay multiplied by years of benefit service earned on and after January 1, 2010, but not more than 25 years. The benefit formula percentage and maximum years of benefit service were both reduced. Effective April 1, 2012, no inactive or former participant in the Plan is eligible to again participate in the plan, and no employee hired after March 31, 2012, is eligible to participate in the Plan. As of the last annual census, ACNB Bank had a combined 368 active, vested terminated, and retired persons in the Plan.

Based on current data and assumptions, the following benefit payments, which reflect expected future service, as appropriate, are:

Years Ending	In thousands
2014	$ 1,020
2015	1,030
2016	1,070
2017	1,170
2018	1,260
2019-2023	7,570

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 immediately to the employee. Bank contributions to and expenses for the plan were $500,000, $486,000 and $461,000 for 2013, 2012 and 2011, respectively.

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NOTE M RETIREMENT PLANS (Continued)

The Corporation's banking subsidiary maintains nonqualified 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, 2013 and 2012, totaled $1,744,000 and $1,545,000, respectively. The annual expense included in salaries and benefits expense totaled $321,000, $297,000 and $143,000 during the years ended December 31, 2013, 2012 and 2011, respectively. 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. At December 31, 2013 and 2012, the cash surrender value of these policies was $4,616,000 and $4,494,000, respectively.

NOTE N REGULATORY MATTERS

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking regulators. 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 consolidated 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, 2013, that the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2013, the most recent notification from the federal banking 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.

On May 5, 2009, stockholders approved and ratified the ACNB Corporation 2009 Restricted Stock Plan, which awards shall not exceed, in the aggregate, 200,000 shares of common stock. As of December 31, 2013, no shares have been issued under the plan. In January 2011, the Corporation offered stockholders the opportunity to participate in the ACNB Corporation Dividend Reinvestment and Stock Purchase Plan. The plan allows registered stockholders who have a minimal number of shares to participate and also provides for voluntary cash purchases of ACNB Corporation common stock. During 2013, 2012, and 2011, 25,943, 19,559, and 17,466 shares of common stock, respectively, were issued within the plan.

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NOTE N REGULATORY MATTERS (Continued)

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	
Dollars in thousands	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
CORPORATION						
As of December 31, 2013						
Tier 1 leverage ratio (to average assets)	**$ 98,704**	**9.54%**	**$ ≥41,367**	**≥4.0%**	**N/A**	**N/A**
Tier 1 risk-based capital ratio (to risk-weighted assets)	**98,704**	**14.09**	**≥28,014**	**≥4.0**	**N/A**	**N/A**
Total risk-based capital ratio (to risk-weighted assets)	**107,623**	**15.37**	**≥56,027**	**≥8.0**	**N/A**	**N/A**
As of December 31, 2012						
Tier 1 leverage ratio (to average assets)	$ 92,860	8.76%	$ ≥42,424	≥4.0%	N/A	N/A
Tier 1 risk-based capital ratio (to risk-weighted assets)	92,860	13.65	≥27,211	≥4.0	N/A	N/A
Total risk-based capital ratio (to risk-weighted assets)	101,512	14.92	≥54,422	≥8.0	N/A	N/A
BANK						
As of December 31, 2013						
Tier 1 leverage ratio (to average assets)	**$ 90,339**	**8.76%**	**$ ≥41,240**	**≥4.0%**	**$ ≥51,550**	**≥5.0%**
Tier 1 risk-based capital ratio (to risk-weighted assets)	**90,339**	**12.99**	**≥27,808**	**≥4.0**	**≥41,712**	**≥6.0**
Total risk-based capital ratio (to risk-weighted assets)	**99,121**	**14.26**	**≥55,616**	**≥8.0**	**≥69,520**	**≥10.0**
As of December 31, 2012						
Tier 1 leverage ratio (to average assets)	$ 86,288	8.14%	$ ≥42,399	≥4.0%	$ ≥52,999	≥5.0%
Tier 1 risk-based capital ratio (to risk-weighted assets)	86,288	12.80	≥26,959	≥4.0	≥40,439	≥6.0
Total risk-based capital ratio (to risk-weighted assets)	94,840	14.07	≥53,919	≥8.0	≥67,398	≥10.0

NOTE O 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 consolidated 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.

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NOTE O FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (Continued)

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 issuing letters of credit is essentially the same as that involved in extending loans to customers. The Corporation generally holds collateral and/or personal guarantees supporting those commitments for which collateral is deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral and the enforcement of guarantees 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, 2013 and 2012, for guarantees under standby letters of credit issued is not material.

In June 2013, ACNB Corporation executed a guaranty for a note related to a $500,000 commercial line of credit from an unaffiliated local bank, with normal terms and conditions for such a line, for Russell Insurance Group, Inc., the borrower and a wholly-owned subsidiary of ACNB Corporation. The commercial line of credit is for general working capital needs should they arise by the borrower. No liability is recorded for the guarantor's obligation as the guarantor would have full recourse from all assets of its wholly-owned subsidiary. No draws were taken on this commercial line of credit since its inception.

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:

In thousands	2013	2012
Commitments to extend credit	**$ 156,135**	$ 145,421
Standby letters of credit	**4,176**	4,772

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.

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NOTE Q ACNB CORPORATION (PARENT COMPANY ONLY) FINANCIAL INFORMATION

STATEMENTS OF CONDITION

	December 31,	
In thousands	**2013**	**2012**
ASSETS		
Cash	**$ 3,585**	$ 1,161
Investment in banking subsidiary	**90,294**	85,975
Investment in other subsidiaries	**9,153**	10,342
Investments in low-income housing partnerships	**2,427**	3,334
Securities and other assets	**1,563**	1,504
Receivable from banking subsidiary	**1,828**	985
Total Assets	**$ 108,850**	$ 103,301
LIABILITIES AND STOCKHOLDERS' EQUITY		
Long-term debt	**$ 1,703**	$ 1,954
Other liabilities	**345**	83
Stockholders' equity	**106,802**	101,264
Total Liabilities and Stockholders' Equity	**$ 108,850**	$ 103,301

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,		
In thousands	**2013**	**2012**	**2011**
Dividends from banking subsidiary	**$ 4,781**	$ 4,762	$ 4,689
Other income	**34**	44	47
	4,815	4,806	4,736
Expenses	**817**	591	494
	3,998	4,215	4,242
Income tax benefit	**944**	736	709
	4,942	4,951	4,951
Equity in undistributed earnings of subsidiaries	**4,373**	3,935	3,551
Net Income	**$ 9,315**	$ 8,886	$ 8,502

Comprehensive Income	**$ 9,633**	$ 8,019	$ 7,975

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NOTE Q ACNB CORPORATION (PARENT COMPANY ONLY) FINANCIAL INFORMATION (Continued)

STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
In thousands	**2013**	**2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 9,315**	$ 8,886	$ 8,502
Equity in undistributed earnings of subsidiaries	**(4,373)**	(3,935)	(3,551)
Increase in receivable from banking subsidiary	**(843)**	(261)	(350)
Other	**695**	671	45
Net Cash Provided by Operating Activities	**4,794**	5,361	4,646
CASH FLOWS FROM INVESTING ACTIVITIES			
Return of investment from subsidiary	**1,500**		
Proceeds from sale of low-income housing partnership	**476**		
Net Cash Provided by Investing Activities	**1,976**		
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayments on long-term debt	**(251)**	(237)	(308)
Proceeds from issuance of common stock	**447**	295	257
Dividends paid	**(4,542)**	(4,524)	(4,512)
Net Cash Used in Financing Activities	**(4,346)**	(4,466)	(4,563)
Net Increase in Cash and Cash Equivalents	**2,424**	895	83
CASH AND CASH EQUIVALENTS BEGINNING	**1,161**	266	183
CASH AND CASH EQUIVALENTS ENDING	**$ 3,585**	$ 1,161	$ 266

NOTE R ACQUISITIONS

On January 5, 2005, ACNB Corporation completed the acquisition of Russell Insurance Group, Inc. (RIG) and RIG began to operate as a separate subsidiary of ACNB Corporation. In accordance with the terms of the acquisition, there was contingent consideration associated with this transaction of up to $3,000,000, payable in 2008 subject to performance criteria for the three-year period subsequent to the acquisition. Due to performance at a higher level than the performance criteria, the liability for this consideration was recorded at December 31, 2006, with a related increase in goodwill. Payment was made in the second quarter of 2008 after it was ascertained that the performance criteria had been met for the full three-year period; after which, the total aggregate purchase price was $8,663,000. In addition, on January 13, 2011, the Corporation entered into another three-year employment agreement with Frank C. Russell, Jr., President & Chief Executive Officer of RIG, effective as of January 1, 2011.

In 2007, RIG acquired two additional books of business with an aggregate purchase price of $637,000. In 2008, RIG acquired an additional book of business with an aggregate purchase price of $1,165,000, all of which was classified as an intangible asset. Also, on December 31, 2008, RIG acquired Marks Insurance & Associates, Inc. with an aggregate purchase price of $1,853,000, of which $1,300,000 was recorded as an intangible asset and $553,000 was recorded as goodwill. The contingent consideration for both 2008 purchases was calculated based on 2011 results of operation. The contingent amount of $338,000 was recorded in December 2011 and is included in goodwill and the other liabilities section of the statement of condition, and was paid on January 13, 2012. The intangible assets (excluding goodwill) are being amortized over ten years on a straight line basis.

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NOTE R ACQUISITIONS (Continued)

In 2010, RIG acquired an additional book of business with an aggregate purchase price of $31,000, of which all was classified as an intangible asset.

In 2013, RIG acquired an additional book of business with an aggregate purchase price of $77,000, of which all was classified as an intangible asset.

The carrying value and accumulated amortization of the intangible assets (customer lists) as of December 31, 2013 and 2012, are as follows:

	2013		2012	
In thousands	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets	**$ 6,494**	**$ 4,649**	$ 6,417	$ 4,008

Amortization of the intangible assets for the five years subsequent to December 31, 2013, is expected to be as follows:

Years Ending	In thousands
2014	$ 649
2015	326
2016	326
2017	308
2018	223
Thereafter	13

NOTE S SEGMENT AND RELATED INFORMATION

RIG is managed separately from the banking segment, which includes the Bank and related financial services that the Corporation offers. RIG offers a broad range of property and casualty, life and health insurance to both commercial and individual clients.

Segment information for 2013, 2012 and 2011 is as follows:

In thousands	Banking	Insurance	Total
2013			
Net interest income and other income from external customers	**$ 40,953**	**$ 4,362**	**$ 45,315**
Income before income taxes	**11,337**	**513**	**11,850**
Total assets	**1,035,597**	**10,450**	**1,046,047**
Capital expenditures	**2,205**	**7**	**2,212**
2012			
Net interest income and other income from external customers	$ 41,525	$ 4,686	$ 46,211
Income before income taxes	10,628	577	11,205
Total assets	1,038,262	11,733	1,049,995
Capital expenditures	1,986	63	2,049
2011			
Net interest income and other income from external customers	$ 41,463	$ 4,644	$ 46,107
Income before income taxes	9,951	705	10,656
Total assets	992,252	12,571	1,004,823
Capital expenditures	1,938	4	1,942

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QUARTERLY RESULTS OF OPERATIONS

Selected quarterly information for the years ended December 31, 2013 and 2012, is as follows:

Dollars in thousands, except per share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2013				
Interest income	**$ 9,666**	**$ 9,356**	**$ 9,220**	**$ 9,359**
Interest expense	**1,132**	**1,018**	**936**	**903**
Net interest income	**8,534**	**8,338**	**8,284**	**8,456**
Provision for loan losses	**650**	**500**	**150**	**150**
Net interest income after provision for loan losses	**7,884**	**7,838**	**8,134**	**8,306**
Other income	**2,945**	**3,140**	**2,847**	**2,771**
Other expenses and provision for income taxes	**8,411**	**8,656**	**8,673**	**8,810**
Net income	**$ 2,418**	**$ 2,322**	**$ 2,308**	**$ 2,267**
Basic earnings per share	**$ 0.41**	**$ 0.38**	**$ 0.39**	**$ 0.38**
Dividends per share	**$ 0.19**	**$ 0.19**	**$ 0.19**	**$ 0.19**
2012				
Interest income	$ 10,271	$ 10,163	$ 10,067	$ 9,938
Interest expense	1,631	1,595	1,526	1,343
Net interest income	8,640	8,568	8,541	8,595
Provision for loan losses	1,125	1,125	1,125	1,300
Net interest income after provision for loan losses	7,515	7,443	7,416	7,295
Net gains on sales of securities	4	3		
Other income	2,812	3,062	2,972	3,014
Other expenses and provision for income taxes	8,095	8,380	8,084	8,091
Net income	$ 2,236	$ 2,128	$ 2,304	$ 2,218

Basic earnings per share	$ 0.38	$ 0.35	$ 0.39	$ 0.37
Dividends per share	$ 0.19	$ 0.19	$ 0.19	$ 0.19

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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 its 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 periodic SEC filings.

Based on the evaluation of the effectiveness of the design and operation of the disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective as of December 31, 2013. The Corporation believes that the accompanying consolidated 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

There were no changes made in the Corporation's internal control over financial reporting in connection with the fourth quarter evaluation that would materially affect, or are reasonably likely to materially affect, internal control over financial reporting.

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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 consolidated 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, 2013. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its *Internal Control Integrated Framework (1992)*. Based on our assessment, management concluded that as of December 31, 2013, ACNB's internal control over financial reporting is effective and meets the criteria of the *Internal Control Integrated Framework (1992)*.

ACNB's independent registered public accounting firm, BDO USA, LLP, has issued an attestation report on ACNB's internal control over financial reporting. This report appears on page 110.

/s/ THOMAS A. RITTER	/s/ DAVID W. CATHELL
Thomas A. Ritter President & Chief Executive Officer	David W. Cathell Executive Vice President, Treasurer & Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
ACNB Corporation
Gettysburg, Pennsylvania

We have audited ACNB Corporation and Subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ACNB 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, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on ACNB Corporation and Subsidiaries' 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, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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, ACNB Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of condition and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows of ACNB Corporation and Subsidiaries as of and for the year ended December 31, 2013, and our report dated March 7, 2014 expressed an unqualified opinion.

/s/ BDO USA, LLP

Harrisburg, Pennsylvania
March 7, 2014

ITEM 9B OTHER INFORMATION

None.

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PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10, relating to directors, executive officers, and control persons, is set forth in sections "Information as to Nominees and Directors", "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 ACNB Corporation's definitive Proxy Statement to be used in connection with the 2014 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

The Corporation first adopted a Code of Ethics that applies to directors, officers and employees of the Corporation and its subsidiaries in 2003. A copy of the Code of Ethics, as revised and approved by the Corporation's Board of Directors on February 26, 2013, and as reaffirmed on February 25, 2014, is included as Exhibit 14 to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Commission on March 15, 2013. A request for the Corporation's Code of Ethics can be made either in writing to Lynda L. Glass, Executive Vice President, Secretary & Chief Governance Officer, ACNB Corporation, 16 Lincoln Square, P.O. Box 3129, Gettysburg, Pennsylvania 17325 or by telephone at 717-334-3161.

There have been no material changes to the procedures by which stockholders may recommend nominees to the Corporation's Board of Directors.

ITEM 11 EXECUTIVE COMPENSATION

Incorporated by reference in response to this Item 11 is the information appearing under the headings "Compensation and Plan Information", "Potential Payments Upon Termination or Change In Control", "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" in ACNB Corporation's 2014 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 2014 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 headings "Transactions with Directors and Executive Officers" and "Governance of the Corporation" in ACNB Corporation's 2014 definitive Proxy Statement.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference in response to this Item 14 is the information appearing under the heading "Independent Auditors" in ACNB Corporation's 2014 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:

Reports of Independent Registered Public Accounting Firms

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Consolidated Statements of Condition

Consolidated Statements of Income

Consolidated Statements of Comprehensive 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 consolidated 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. (Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on June 2, 2009.)
Exhibit 3(ii)	Bylaws of ACNB Corporation, as amended. (Incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K, filed with the Commission on February 4, 2013.)
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. (Incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Commission on March 13, 2009.)
Exhibit 10.3	Executive Supplemental Life Insurance Plan Applicable to Ronald L. Hankey, Thomas A. Ritter, David W. Cathell, Lynda L. Glass and James P. Helt. (Incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2008, filed with the Commission on November 7, 2008.)
Exhibit 10.4	Director Supplemental Life Insurance Plan Applicable to Frank Elsner III, Scott L. Kelley, James J. Lott, Robert W. Miller, Donna M. Newell, J. Emmett Patterson, Daniel W. Potts, Marian B. Schultz, David L. Sites, Alan J. Stock, Harry L. Wheeler and James E. Williams. (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	Amended and Restated Director Deferred Fee Plan Applicable to Frank Elsner III, Scott L. Kelley, James J. Lott, Robert W. Miller, Donna M. Newell, J. Emmett Patterson, Marian B. Schultz, David L. Sites, Alan J. Stock, Harry L. Wheeler and James E. Williams. (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on January 6, 2012.)

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Exhibit 10.6	ACNB Bank Salary Savings Plan. (Incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Commission on March 12, 2010.)
Exhibit 10.7	Group Pension Plan for Employees of ACNB Bank. (Incorporated by reference to Exhibit 10.7 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed with the Commission on May 4, 2012.)
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 December 31, 2008. (Incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Commission on March 13, 2009.)
Exhibit 10.10	Employment Agreement between ACNB Corporation, Adams County National Bank and Lynda L. Glass dated as of December 31, 2008. (Incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Commission on March 13, 2009.)
Exhibit 10.11	Employment Agreement between ACNB Corporation, Russell Insurance Group, Inc. and Frank C. Russell, Jr. dated as of January 13, 2011. (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on January 19, 2011.)
Exhibit 10.12	Employment Agreement between ACNB Corporation, Adams County National Bank and David W. Cathell dated as of April 17, 2009. (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 23, 2009.)
Exhibit 10.13	2009 Restricted Stock Plan. (Incorporated by reference to Appendix C of the Registrant's Proxy Statement on Schedule 14A, filed with the Commission on March 25, 2009.)
Exhibit 10.14	Salary Continuation Agreement by and between ACNB Bank and Thomas A. Ritter dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.15	Salary Continuation Agreement by and between ACNB Bank and Lynda L. Glass dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.16	Salary Continuation Agreement by and between ACNB Bank and David W. Cathell dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.3 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.17	Amended and Restated 2001 Salary Continuation Agreement by and between ACNB Bank and Thomas A. Ritter dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.4 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.18	Amended and Restated 1996 Salary Continuation Agreement by and between ACNB Bank and Lynda L. Glass dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.5 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)

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Exhibit 10.19	Employment Agreement between Adams County National Bank and James P. Helt dated as of April 15, 2009.
Exhibit 10.20	Salary Continuation Agreement by and between ACNB Bank and James P. Helt dated as of March 28, 2012.
Exhibit 11	Statement re Computation of Earnings. (Incorporated by reference to page 76 of this Form 10-K.)
Exhibit 14	Code of Ethics. (Incorporated by reference to Exhibit 14 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Commission on March 15, 2013.)
Exhibit 16.1	Correspondence from ParenteBeard LLC to the Securities and Exchange Commission dated July 11, 2013. (Incorporated by reference to Exhibit 16.1 of the Registrant's Current Report on Form 8-K, filed with the Commission of July 15, 2013.)
Exhibit 18	Preferability Letter from ParenteBeard LLC dated as of August 3, 2012. (Incorporated by reference to Exhibit 18 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the Commission on August 3, 2012.)
Exhibit 21	Subsidiaries of the Registrant.
Exhibit 23.1	Consent of BDO USA, LLP.
Exhibit 23.2	Consent of ParenteBeard LLC.
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 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase.
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
Exhibit 101.INS	XBRL Instance Document.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase.

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SIGNATURES

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 7, 2014

Date

By: /s/ THOMAS A. RITTER

Thomas A. Ritter
President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 7, 2014, by the following persons in the capacities indicated.

/s/ DAVID W. CATHELL

David W. Cathell
Executive Vice President, Treasurer & Chief Financial Officer
(Principal Financial Officer)

/s/ THOMAS A. RITTER

Thomas A. Ritter
Director and President & Chief Executive Officer

/s/ FRANK ELSNER, III

Frank Elsner, III
Director and Chairman of the Board

/s/ DANIEL W. POTTS

Daniel W. Potts
Director

/s/ SCOTT L. KELLEY

Scott L. Kelley
Director

/s/ MARIAN B. SCHULTZ

Marian B. Schultz
Director

/s/ JAMES J. LOTT

James J. Lott
Director

/s/ DAVID L. SITES

David L. Sites
Director

/s/ ROBERT W. MILLER

Robert W. Miller
Director

/s/ ALAN J. STOCK

Alan J. Stock
Director and Vice Chairman of the Board

/s/ DONNA M. NEWELL

Donna M. Newell
Director

/s/ HARRY L. WHEELER

Harry L. Wheeler
Director

/s/ J. EMMETT PATTERSON

J. Emmett Patterson
Director

/s/ JAMES E. WILLIAMS

James E. Williams
Director