CROSSMAN MARC
Form 4
November 09, 2010

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person [*]
CROSSMAN MARC
(Last) (First) (Middle)
C/O JOE'S JEANS INC., 2340 S EASTERN AVE
(Street)
COMMERCE, CA 90040
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
JOE'S JEANS INC. [JOEZ]

3. Date of Earliest Transaction (Month/Day/Year)
11/06/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President & CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	11/06/2010		F		121,453	D	$ 1.71 (1)	1,193,707 (2)	D	
Common Stock	11/09/2010		F		22,380	D	$ 1.71 (3)	1,171,327 (2)	D	
Common Stock								50,000	I	By Trust for minor children (4)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
CROSSMAN MARC C/O JOE'S JEANS INC. 2340 S EASTERN AVE COMMERCE, CA 90040	X		President & CEO	

Signatures

/Marc Crossman/	11/09/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The reporting person previously received a grant of shares of Restricted Stock Units ("RSUs") that represented a contingent right to receive one share of the Company's common stock pursuant to the 2004 Stock Incentive Plan and previously reported as acquired on Table I of a Form 4. In accordance with the terms and conditions of the RSU agreement, 1/3 of the shares vested and the Company withheld an equivalent amount of RSUs at fair market value to pay the minimum tax withholding requirements for the reporting person.

(2) Includes shares of restricted stock and restricted stock units previously reported on Table I that are subject to vesting requirements.

(3) The reporting person previously received a grant of shares of restricted stock that represented a contingent right to receive one share of the Company's common stock pursuant to the 2004 Stock Incentive Plan and previously reported as acquired on Table I of a Form 4. In

accordance with the terms and conditions of the restricted stock agreement, 1/3 of the shares vested and the Company withheld an equivalent amount of restricted stock at fair market value to pay the minimum tax withholding requirements for the reporting person.

(4) These shares are held in trust for the reporting person's minor children of which the reporting person's father is trustee. The reporting person disclaims beneficial ownership of common stock held in such trusts. The filing of this statement shall not be deemed to be an admission that the reporting person is the beneficial owner of any securities not held directly for his account for purposes of Section 16 of the Securities Exchange Act of 1934, as amended, or otherwise.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. FF;padding:0in 0in 0in 0in;width:2.5%;">

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2018

Net interest income and other income from external customers

Explanation of Responses:

$

16,074

$

1,200

$

17,274

Income before income taxes

5,818

220

6,038

Total assets

1,601,028

9,987

1,611,015

Capital expenditures

357

357

Customer renewal lists are amortized over their estimated useful lives which range from eight to fifteen years. Core deposit intangible assets are primarily amortized over 10 years using accelerated methods. Goodwill is not amortized, but rather is analyzed annually for impairment. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. Tax amortization of goodwill and the intangible assets is deductible for tax purposes. Tax amortization of the goodwill associated with the New Windsor acquisition is not deductible for federal income tax purposes.

7. 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. Debt securities not classified as held to maturity or trading 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). As of January 1, 2018, equity securities with readily determinable fair values are recorded at fair value with changes in fair value recognized in net income. Prior to 2018, fair value changes were 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.

Amortized cost and fair value of securities at March 31, 2019, and December 31, 2018, were as follows:

In thousands		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
SECURITIES AVAILABLE FOR SALE								
MARCH 31, 2019								
U.S. Government and agencies	**$**	**119,831**	**$**	**358**	**$**	**1,402**	**$**	**118,787**
Mortgage-backed securities, residential		**32,347**		**390**		**105**		**32,632**
State and municipal		**9,470**		**72**		**12**		**9,530**
	$	**161,648**	**$**	**820**	**$**	**1,519**	**$**	**160,949**
DECEMBER 31, 2018								
U.S. Government and agencies	$	120,420	$	142	$	2,149	$	118,413
Mortgage-backed securities, residential		33,960		194		343		33,811
State and municipal		9,482		60		36		9,506
	$	163,862	$	396	$	2,528	$	161,730
SECURITIES HELD TO MATURITY								
MARCH 31, 2019								
U.S. Government and agencies	**$**	**7,000**	**$**		**$**	**41**	**$**	**6,959**
Mortgage-backed securities, residential		**19,073**		**10**		**171**		**18,912**
	$	**26,073**	**$**	**10**	**$**	**212**	**$**	**25,871**
DECEMBER 31, 2018								
U.S. Government and agencies	$	7,000	$		$	69	$	6,931
Mortgage-backed securities, residential		20,266		4		290		19,980
	$	27,266	$	4	$	359	$	26,911

The Corporation adopted ASU 2016-01, *Financial Instruments Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* effective January 1, 2018. The required fair value disclosures are as follows:

In thousands		Fair Value at January 1, 2019		Unrealized Gains		Unrealized Losses		Fair Value at March 31, 2019
MARCH 31, 2019								
CRA Mutual Fund	**$**	**1,012**	**$**	**16**	**$**		**$**	**1,028**
Stock in other banks		**827**		**37**		**20**		**844**
	$	**1,839**	**$**	**53**	**$**	**20**	**$**	**1,872**

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In thousands	Fair Value at January 1, 2018	Unrealized Gains	Unrealized Losses	Fair Value at March 31, 2018
MARCH 31, 2018				
CRA Mutual Fund	$ 1,044	$	$ 25	$ 1,019
Stock in other banks	749	7	15	741
	$ 1,793	$ 7	$ 40	$ 1,760

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 March 31, 2019, and December 31, 2018:

	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						
MARCH 31, 2019						
U.S. Government and agencies	**$**	**$**	**$ 86,876**	**$ 1,402**	**$ 86,876**	**$ 1,402**
Mortgage-backed securities, residential	**9**	**1**	**13,364**	**104**	**13,373**	**105**
State and municipal			**2,062**	**12**	**2,062**	**12**
	$ 9	**$ 1**	**$ 102,302**	**$ 1,518**	**$ 102,311**	**$ 1,519**
DECEMBER 31, 2018						
U.S. Government and agencies	$ 1,997	$ 5	$ 87,216	$ 2,144	$ 89,213	$ 2,149
Mortgage-backed securities, residential	9,410	134	8,586	209	17,996	343
State and municipal			2,696	36	2,696	36
	$ 11,407	$ 139	$ 98,498	$ 2,389	$ 109,905	$ 2,528
SECURITIES HELD TO MATURITY						
MARCH 31, 2019						
U.S. Government and agencies	**$**	**$**	**$ 6,959**	**$ 41**	**$ 6,959**	**$ 41**
Mortgage-backed securities, residential	**1,324**	**6**	**13,915**	**165**	**15,239**	**171**
	$ 1,324	**$ 6**	**$ 20,874**	**$ 206**	**$ 22,198**	**$ 212**
DECEMBER 31, 2018						
U.S. Government and agencies	$ 2,975	$ 25	$ 3,956	$ 44	$ 6,931	$ 69
Mortgage-backed securities, residential	5,408	59	12,636	231	18,044	290
	$ 8,383	$ 84	$ 16,592	$ 275	$ 24,975	$ 359

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 March 31, 2019, forty-eight available for sale U.S. Government and agency securities had unrealized losses that individually did not exceed 4% of amortized cost. All 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 March 31, 2019, twenty-two available for sale residential mortgage-backed securities had unrealized losses that individually did not exceed 15% of amortized cost. Twenty 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 March 31, 2019, seven available for sale state and municipal securities had unrealized losses that individually did not exceed 2% of amortized cost. All 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 March 31, 2019, five held to maturity U.S. Government and agency securities had unrealized losses that individually did not exceed 1% of amortized cost. All 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 March 31, 2019, twenty-seven held to maturity residential mortgage-backed securities had unrealized losses that individually did not exceed 2% of amortized cost. Twenty-four 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.

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 March 31, 2019, 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.

Amortized cost and fair value at March 31, 2019, 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	$	**8,772**	$	**8,747**	$	**3,000**	$	**2,983**
Over 1 year through 5 years		**120,330**		**119,369**		**4,000**		**3,976**
Over 5 years through 10 years		**199**		**201**				
Over 10 years								
Mortgage-backed securities, residential		**32,347**		**32,632**		**19,073**		**18,912**
	$	**161,648**	$	**160,949**	$	**26,073**	$	**25,871**

The Corporation did not sell any securities available for sale during the first quarters of 2019 or 2018.

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At March 31, 2019, and December 31, 2018, securities with a carrying value of $164,002,000 and $165,792,000, respectively, were pledged as collateral as required by law on public and trust deposits, repurchase agreements, and for other purposes.

8. 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 values 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 the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not collected, for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual 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 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 financial 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 the previous twelve quarters for each of these categories of loans, adjusted for qualitative risk 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,

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, 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. The Corporation orders valuations 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.

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.

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 financial ability to repay the loan as agreed 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 are subject to risk due primarily to general economic conditions, as well as a continued weak 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, the Corporation evaluates both the value of the property securing the loan and the borrower s financial ability to repay the loan as agreed. 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 is 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 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.

Acquired Loans

Acquired loans (impaired and non-impaired) are initially recorded at their acquisition-date fair values using Level 3 inputs. Fair values are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, expected lifetime losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments. Specifically, the Corporation has prepared three separate loan fair value adjustments that it believed a market participant might employ in estimating the entire fair value adjustment necessary under ASC 820-10 for the acquired loan portfolio. The three-separate fair valuation methodology employed are: 1) an interest rate loan fair value adjustment, 2) a general credit fair value adjustment, and 3) a specific credit fair value adjustment for purchased credit impaired loans subject to ASC 310-30 procedures.

The carryover of allowance for loan losses related to acquired loans is prohibited as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. The allowance for loan losses on acquired loans reflects only those losses incurred after acquisition and represents the present value of cash flows expected at acquisition that is no longer expected to be collected. Acquired loans are marked to fair value on the date of acquisition. In conjunction with the quarterly evaluation of the adequacy of the allowance for loan losses, the Corporation performs an analysis on acquired loans to determine whether or not there has been subsequent deterioration in relation to those loans. If deterioration has occurred, the Corporation will include these loans in the calculation of the allowance for loan losses after the initial valuation, and provide accordingly.

Upon acquisition, in accordance with US GAAP, the Corporation has individually determined whether each acquired loan is within the scope of ASC 310-30. The Corporation s senior lending management reviewed the accounting seller s loan portfolio on a loan by loan basis to determine if any loans met the two-part definition of an impaired loan as defined by ASC 310-30: 1) Credit deterioration on the loan from its inception until the acquisition date, and 2) It is probable that not all of the contractual cash flows will be collected on the loan.

Acquired ASC 310-20 loans, which are loans that did not meet the criteria above, were pooled into groups of similar loans based on various factors including borrower type, loan purpose, and collateral type. For these pools, the Corporation used certain loan information, including outstanding principal balance, estimated expected losses, weighted average maturity, weighted average margin, and weighted average interest rate along with estimated prepayment rates, expected lifetime losses, environment factors to estimate the expected cash flow for each loan pool. With regards to ASC 310-30 loans, for external disclosure purposes, the aggregate contractual cash flows less the aggregate expected cash flows resulted in a credit related non-accretable yield amount. The aggregate expected cash flows less the acquisition date fair value resulted in an accretable yield amount. The accretable yield reflects the contractual cash flows management expects to collect above the loan s acquisition date fair value and will be recognized over the life of the loan on a level-yield basis as a component of interest income.

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Over the life of the acquired ASC 310-30 loan, the Corporation continues to estimate cash flows expected to be collected. Decreases in expected cash flows, other than from prepayments or rate adjustments, are recognized as impairments through a charge to the provision for credit losses resulting in an increase in the allowance for credit losses. Subsequent improvements in cash flows result in first, reversal of existing valuation allowances recognized subsequent to acquisition, if any, and next, an increase in the amount of accretable yield to be subsequently recognized on a prospective basis over the loan s remaining life.

Acquired ASC 310-30 loans that met the criteria for non-accrual of interest prior to acquisition are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of expected cash flows on such loans. Accordingly, we do not consider acquired contractually delinquent loans to be non-accruing and continue to recognize interest income on these loans using the accretion model.

The following table presents 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 March 31, 2019, and December 31, 2018:

In thousands	Pass	Special Mention	Substandard	Doubtful	Total
MARCH 31, 2019					
Originated Loans					
Commercial and industrial	$ **166,974**	$ **2,864**	$ **854**	$	$ **170,692**
Commercial real estate	**386,932**	**21,102**	**8,737**		**416,771**
Commercial real estate construction	**25,421**	**819**			**26,240**
Residential mortgage	**375,627**	**6,778**	**295**		**382,700**
Home equity lines of credit	**91,775**	**341**			**92,116**
Consumer	**14,092**				**14,092**
Total Originated Loans	**1,060,821**	**31,904**	**9,886**		**1,102,611**
Acquired Loans					
Commercial and industrial	**4,295**	**192**	**130**		**4,617**
Commercial real estate	**119,053**	**5,256**	**3,193**		**127,502**
Commercial real estate construction	**2,778**	**708**			**3,486**
Residential mortgage	**38,581**	**2,026**	**3,119**		**43,726**
Home equity lines of credit	**18,713**	**88**	**416**		**19,217**
Consumer	**176**				**176**
Total Acquired Loans	**183,596**	**8,270**	**6,858**		**198,724**
Total Loans					
Commercial and industrial	**171,269**	**3,056**	**984**		**175,309**
Commercial real estate	**505,985**	**26,358**	**11,930**		**544,273**
Commercial real estate construction	**28,199**	**1,527**			**29,726**
Residential mortgage	**414,208**	**8,804**	**3,414**		**426,426**
Home equity lines of credit	**110,488**	**429**	**416**		**111,333**
Consumer	**14,268**				**14,268**
Total Loans	$ **1,244,417**	$ **40,174**	$ **16,744**	$	$ **1,301,335**

In thousands	Pass	Special Mention	Substandard	Doubtful	Total
DECEMBER 31, 2018					
Originated Loans					
Commercial and industrial	$ 166,035	$ 2,902	$ 161	$	$ 169,098
Commercial real estate	393,987	18,079	7,899		419,965
Commercial real estate construction	15,471	835			16,306
Residential mortgage	381,525	6,492	733		388,750
Home equity lines of credit	90,941	334			91,275
Consumer	14,174				14,174
Total Originated Loans	1,062,133	28,642	8,793		1,099,568
Acquired Loans					
Commercial and industrial	4,803	134	147		5,084
Commercial real estate	120,321	5,112	3,525		128,958
Commercial real estate construction	3,276	716			3,992
Residential mortgage	41,193	1,896	2,460		45,549
Home equity lines of credit	18,614	88	386		19,088
Consumer	226				226
Total Acquired Loans	188,433	7,946	6,518		202,897
Total Loans					
Commercial and industrial	170,838	3,036	308		174,182
Commercial real estate	514,308	23,191	11,424		548,923
Commercial real estate construction	18,747	1,551			20,298
Residential mortgage	422,718	8,388	3,193		434,299
Home equity lines of credit	109,555	422	386		110,363
Consumer	14,400				14,400
Total Loans	$ 1,250,566	$ 36,588	$ 15,311	$	$ 1,302,465

The following table provides changes in accretable yield for all acquired loans accounted for under ASC 310-30. Loans accounted for under ASC 310-20 are not included in this table.

In thousands	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Balance at beginning of period	**$ 891**	**$ 1,234**
Acquisitions of impaired loans		
Reclassification from non-accretable differences		**114**
Accretion to loan interest income	**(137)**	**(203)**
Balance at end of period	**$ 754**	**$ 1,145**

Cash flows expected to be collected on acquired loans are estimated quarterly by incorporating several key assumptions similar to the initial estimate of fair value. These key assumptions include probability of default and the amount of actual prepayments after the acquisition date. Prepayments affect the estimated life of the loans and could change the amount of interest income, and possibly principal expected to be collected. In reforecasting future estimated cash flows, credit loss expectations are adjusted as necessary. Improved cash flow expectations for loans or pools are recorded first as a reversal of previously recorded impairment, if any, and then as an increase in prospective yield when all previously recorded impairment has been recaptured. Decreases in expected cash flows are recognized as impairment through a charge to the provision for loan losses and credit to the allowance for loan losses.

The following table summarizes information relative to impaired loans by loan portfolio class as of March 31, 2019, and December 31, 2018:

	Impaired Loans with Allowance			Impaired Loans with No Allowance	
In thousands	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Recorded Investment**	**Unpaid Principal Balance**
MARCH 31, 2019					
Commercial and industrial	**$**	**$**	**$**	**$**	**$**
Commercial real estate				**6,654**	**6,654**
Commercial real estate construction					
Residential mortgage				**537**	**537**
Home equity lines of credit					
	$	**$**	**$**	**$ 7,191**	**$ 7,191**
DECEMBER 31, 2018					
Commercial and industrial	$	$	$	$	$
Commercial real estate				6,763	6,763
Commercial real estate construction					
Residential mortgage				537	537
Home equity lines of credit					
	$	$	$	$ 7,300	$ 7,300

The following table summarizes information in regards to the average of impaired loans and related interest income by loan portfolio class for the three months ended March 31, 2019 and 2018:

	Impaired Loans with Allowance		Impaired Loans with No Allowance	
In thousands	**Average Recorded Investment**	**Interest Income**	**Average Recorded Investment**	**Interest Income**
MARCH 31, 2019				
Commercial and industrial	**$**	**$**	**$**	**$**
Commercial real estate			**6,708**	**57**
Commercial real estate construction				
Residential mortgage			**537**	
Home equity lines of credit				
	$	**$**	**$ 7,245**	**$ 57**
MARCH 31, 2018				
Commercial and industrial	$ 1,089	$	$ 183	$
Commercial real estate			7,835	47
Commercial real estate construction				
Residential mortgage	188		101	
	$ 1,277	$	$ 8,119	$ 47

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

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Explanation of Responses:

The following table presents nonaccrual loans by loan portfolio class as of March 31, 2019, and December 31, 2018, the table below excludes $6.9 million in purchase credit impaired loans, net of unamortized fair value adjustments:

In thousands	March 31, 2019		December 31, 2018	
Commercial and industrial	**$**		$	
Commercial real estate		**2,796**		2,880
Commercial real estate construction				
Residential mortgage		**537**		537
Home equity lines of credit				
	$	**3,333**	$	3,417

There were no loans whose terms have been modified resulting in a troubled debt restructuring during the three months ended March 31, 2019 and 2018. The Corporation classifies certain loans as troubled debt restructurings when credit terms to a borrower in financial difficulty are modified. The modifications may include a reduction in rate, an extension in term and/or the restructuring of scheduled principal payments. The Corporation had pre-existing nonaccruing and accruing troubled debt restructurings of $6,143,000 and $6,509,000 at March 31, 2019 and March 31, 2018, respectively. 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. Included in the non-accrual loan total at March 31, 2019 and March 31, 2018, were $2,285,000 and $2,552,000, respectively, of troubled debt restructurings. In addition to the troubled debt restructurings included in non-accrual loans, the Corporation also has loans classified as accruing troubled debt restructurings at March 31, 2019 and March 31, 2018, which total $3,858,000 and $3,957,000, respectively. As of March 31, 2019 and 2018, there were no defaulted troubled debt restructured loans. There were no charge-offs or specific allocation on any of the troubled debt restructured loans for the three months ended March 31, 2019 and 2018. One troubled debt restructured loan paid off during 2018 in the amount of $832,000. All other troubled debt restructured loans were current as of March 31, 2019, with respect to their associated forbearance agreement, except for one loan which has had periodic late payments. As of March 31, 2019, one loan classified as a troubled debt restructured loan has an active forbearance agreement. All other forbearance agreements have expired or the loans have paid off.

Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at March 31, 2019 and December 31, 2018, totaled $833,000 and $661,000, respectively.

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.

The following table presents the classes of the loan portfolio summarized by the past due status as of March 31, 2019, and December 31, 2018:

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
MARCH 31, 2019							
Originated Loans							
Commercial and industrial	$ 2,595	$	$ 52	$ 2,647	$ 168,045	$ 170,692	$ 52
Commercial real estate	1,099		340	1,439	415,332	416,771	340
Commercial real estate construction	45	239	100	384	25,856	26,240	
Residential mortgage	2,683	529	1,679	4,891	377,809	382,700	1,142
Home equity lines of credit	72	37	266	375	91,741	92,116	266
Consumer	75	24	7	106	13,986	14,092	7
Total originated loans	6,569	829	2,444	9,842	1,092,769	1,102,611	1,807
Acquired Loans							
Commercial and industrial	26			26	4,591	4,617	
Commercial real estate	1,062		845	1,907	125,595	127,502	845
Commercial real estate construction			77	77	3,409	3,486	77
Residential mortgage	837	1	123	961	42,765	43,726	123
Home equity lines of credit	518	59	19	596	18,621	19,217	19
Consumer	5			5	171	176	
Total acquired loans	2,448	60	1,064	3,572	195,152	198,724	1,064
Total Loans							
Commercial and industrial	2,621		52	2,673	172,636	175,309	52
Commercial real estate	2,161		1,185	3,346	540,927	544,273	1,185
Commercial real estate construction	45	239	177	461	29,265	29,726	77
Residential mortgage	3,520	530	1,802	5,852	420,574	426,426	1,265
Home equity lines of credit	590	96	285	971	110,362	111,333	285
Consumer	80	24	7	111	14,157	14,268	7
Total Loans	$ 9,017	$ 889	$ 3,508	$ 13,414	$ 1,287,921	$ 1,301,335	$ 2,871

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, 2018							
Originated Loans							
Commercial and industrial	$ 49	$ 49	$ 4	$ 102	$ 168,996	$ 169,098	$ 4
Commercial real estate	775	550	114	1,439	418,526	419,965	
Commercial real estate construction					16,306	16,306	
Residential mortgage	1,783	529	2,361	4,673	384,077	388,750	1,824
Home equity lines of credit	16	38	375	429	90,846	91,275	375
Consumer	36	14		50	14,124	14,174	
Total originated loans	2,659	1,180	2,854	6,693	1,092,875	1,099,568	2,203
Acquired Loans							
Commercial and industrial	27			27	5,057	5,084	
Commercial real estate	64		851	915	128,043	128,958	851
Commercial real estate construction	343		77	420	3,572	3,992	77
Residential mortgage	1,235	251	907	2,393	43,156	45,549	125
Home equity lines of credit	227		89	316	18,772	19,088	89
Consumer		7		7	219	226	
Total acquired loans	1,896	258	1,924	4,078	198,819	202,897	1,142
Total Loans							
Commercial and industrial	76	49	4	129	174,053	174,182	4
Commercial real estate	839	550	965	2,354	546,569	548,923	851
Commercial real estate construction	343		77	420	19,878	20,298	77
Residential mortgage	3,018	780	3,268	7,066	427,233	434,299	1,949
Home equity lines of credit	243	38	464	745	109,618	110,363	464
Consumer	36	21		57	14,343	14,400	
Total Loans	$ 4,555	$ 1,438	$ 4,778	$ 10,771	$ 1,291,694	$ 1,302,465	$ 3,345

The following tables summarize the allowance for loan losses and recorded investment in loans receivable:

In thousands	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction	Residential Mortgage	Home Equity Lines of Credit	Consumer	Unallocated	Total
AS OF AND FOR THE PERIOD ENDED MARCH 31, 2019								
Allowance for Loan Losses								
Beginning balance - January 1, 2019	**$ 2,597**	**$ 6,208**	**$ 203**	**$ 2,814**	**$ 611**	**$ 692**	**$ 839**	**$ 13,964**
Charge-offs	**(31)**			**(6)**	**(51)**	**(44)**		**(132)**
Recoveries	**14**			**1**		**23**		**38**
Provisions	**40**	**70**	**38**	**(72)**	**56**	**26**	**(8)**	**150**
Ending balance - March 31, 2019	**$ 2,620**	**$ 6,278**	**$ 241**	**$ 2,737**	**$ 616**	**$ 697**	**$ 831**	**$ 14,020**
Ending balance: individually evaluated for impairment	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Ending balance: collectively evaluated for impairment	**$ 2,620**	**$ 6,278**	**$ 241**	**$ 2,737**	**$ 616**	**$ 697**	**$ 831**	**$ 14,020**
Loans Receivable								
Ending balance	**$ 175,309**	**$ 544,273**	**$ 29,726**	**$ 426,426**	**$ 111,333**	**$ 14,268**	**$**	**$ 1,301,335**
Ending balance: individually evaluated for impairment	**$**	**$ 6,654**	**$**	**$ 537**	**$**	**$**	**$**	**$ 7,191**
Ending balance: collectively evaluated for impairment	**$ 175,309**	**$ 537,619**	**$ 29,726**	**$ 425,889**	**$ 111,333**	**$ 14,268**	**$**	**$ 1,294,144**
AS OF AND FOR THE PERIOD ENDED MARCH 31, 2018								
Allowance for Loan Losses								
Beginning Balance - January 1, 2018	$ 3,219	$ 5,228	$ 126	$ 3,226	$ 612	$ 749	$ 816	$ 13,976
Charge-offs	(389)	(33)		(383)		(21)		(826)
Recoveries	7			10				17
Provisions	137	260	9	83	(19)	(3)	(217)	250
Ending balance - March 31, 2018	$ 2,974	$ 5,455	$ 135	$ 2,936	$ 593	$ 725	$ 599	$ 13,417
Ending balance: individually evaluated for impairment	$ 517	$	$	$	$	$	$	$ 517
Ending balance: collectively evaluated for impairment	$ 2,457	$ 5,455	$ 135	$ 2,936	$ 593	$ 725	$ 599	$ 12,900
Loans Receivable								
Ending balance	$ 162,463	$ 509,747	$ 21,073	$ 423,944	$ 104,492	$ 16,035	$	$ 1,237,754
Ending balance: individually evaluated for impairment	$ 1,046	$ 7,309	$	$ 101	$	$	$	$ 8,456
Ending balance: collectively evaluated for impairment	$ 161,417	$ 502,438	$ 21,073	$ 423,843	$ 104,492	$ 16,035	$	$ 1,229,298

In thousands	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction	Residential Mortgage	Home Equity Lines of Credit	Consumer	Unallocated	Total
AS OF DECEMBER 31, 2018								
Allowance for Loan Losses								
Ending balance	$ 2,597	$ 6,208	$ 203	$ 2,814	$ 611	$ 692	$ 839	$ 13,964
Ending balance: individually evaluated for impairment	$	$	$	$	$	$	$	$
Ending balance: collectively evaluated for impairment	$ 2,597	$ 6,208	$ 203	$ 2,814	$ 611	$ 692	$ 839	$ 13,964
Loans Receivable								
Ending balance	$ 174,182	$ 548,923	$ 20,298	$ 434,299	$ 110,363	$ 14,400	$	$ 1,302,465
Ending balance: individually evaluated for impairment	$	$ 6,763	$	$ 537	$	$	$	$ 7,300
Ending balance: collectively evaluated for impairment	$ 174,182	$ 542,160	$ 20,298	$ 433,762	$ 110,363	$ 14,400	$	$ 1,295,165

9. 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.

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 of measurement used at March 31, 2019, and December 31, 2018, are as follows:

		March 31, 2019			
In thousands	**Basis**	**Total**	**Level 1**	**Level 2**	**Level 3**
U.S. Government and agencies		**$ 118,787**	**$**	**$ 118,787**	**$**
Mortgage-backed securities, residential		**32,632**		**32,632**	
State and municipal		**9,530**		**9,530**	
Total securities available for sale	**Recurring**	**$ 160,949**	**$**	**$ 160,949**	**$**
Equity securities with readily determinable fair values	**Recurring**	**$ 1,872**	**$ 1,872**	**$**	**$**
Collateral dependent impaired loans	**Nonrecurring**	**$ 3,858**	**$**	**$**	**$ 3,858**

		December 31, 2018			
In thousands	**Basis**	**Total**	**Level 1**	**Level 2**	**Level 3**
U.S. Government and agencies		$ 118,413	$	$ 118,413	$
Mortgage-backed securities, residential		33,811		33,811	
State and municipal		9,506		9,506	
Total securities available for sale	Recurring	$ 161,730	$	$ 161,730	$
Equity securities with readily determinable fair values	Recurring	$ 1,839	$ 1,839	$	$
Collateral dependent impaired loans	Nonrecurring	$ 3,883	$	$	$ 3,883

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**
March 31, 2019					
Impaired loans	**$ 3,858**	**Appraisal of collateral (a)**	**Appraisal adjustments (b)**	**(10) - (50)%**	**(16)%**
December 31, 2018					
Impaired loans	$ 3,883	Appraisal of collateral (a)	Appraisal adjustments (b)	(10) - (50)%	(16)%

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

(b) Appraisals may be adjusted downward 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,

and/or age of the appraisal.

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 presents the carrying amount, fair value, and placement in the fair value hierarchy of the Corporation s financial instruments as of March 31, 2019:

	March 31, 2019				
In thousands	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	**$ 18,068**	**$ 18,068**	**$ 7,447**	**$ 10,621**	**$**
Interest-bearing deposits in banks	**43,285**	**43,285**	**43,285**		
Equity securities available for sale	**1,872**	**1,872**	**1,872**		
Investment securities available for sale	**160,949**	**160,949**		**160,949**	
Investment securities held to maturity	**26,073**	**25,871**		**25,871**	
Loans held for sale	**300**	**300**		**300**	
Loans, less allowance for loan losses	**1,287,315**	**1,271,701**			**1,271,701**
Accrued interest receivable	**5,047**	**5,047**		**5,047**	
Restricted investment in bank stocks	**4,382**	**4,382**		**4,382**	
Financial liabilities:					
Demand deposits and savings	**982,005**	**982,005**		**982,005**	
Time deposits	**385,053**	**383,028**		**383,028**	
Short-term borrowings	**29,759**	**29,759**		**29,759**	
Long-term borrowings	**77,407**	**77,599**		**77,599**	
Trust preferred subordinated debt	**5,000**	**4,704**		**4,704**	
Accrued interest payable	**1,614**	**1,614**		**1,614**	
Off-balance sheet financial instruments					

The following presents the carrying amount, exit pricing concept fair value, and placement in the fair value hierarchy of the Corporation s financial instruments as of December 31, 2018:

	December 31, 2018				
In thousands	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 20,105	$ 20,105	$ 8,190	$ 11,915	$
Interest-bearing deposits in banks	20,800	20,800	20,800		
Equity securities available for sale	1,839	1,839	1,839		
Investment securities available for sale	161,730	161,730		161,730	
Investment securities held to maturity	27,266	26,911		26,911	
Loans held for sale	408	408		408	
Loans, less allowance for loan losses	1,288,501	1,272,393			1,272,393
Accrued interest receivable	4,545	4,545		4,545	
Restricted investment in bank stocks	4,336	4,336		4,336	
Financial liabilities:					
Demand deposits and savings	979,964	979,964		979,964	
Time deposits	368,128	364,093		364,093	
Short-term borrowings	34,648	34,648		34,648	
Long-term borrowings	78,516	78,545		78,545	
Trust preferred subordinated debt	5,000	4,701		4,701	
Accrued interest payable	1,364	1,364		1,364	
Off-balance sheet financial instruments					

10. Securities Sold Under Agreements to Repurchase (Repurchase Agreements)

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.

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 short-term borrowings subject to an enforceable master netting arrangement or repurchase agreement as of March 31, 2019, and December 31, 2018:

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	Gross Amounts Not Offset in the Statements of Condition: Cash Collateral Pledged	Net Amount
March 31, 2019							
Repurchase agreements							
Commercial customers and government entities	(a)	**$ 29,759**	**$**	**$ 29,759**	**$ (29,759)**	**$**	**$**
December 31, 2018							
Repurchase agreements							
Commercial customers and government entities	(a)	$ 34,616	$	$ 34,616	$ (34,616)	$	$

(a) As of March 31, 2019, and December 31, 2018, the fair value of securities pledged in connection with repurchase agreements was $39,379,000 and $39,788,000, respectively.

The following table presents the remaining contractual maturity of the master netting arrangement or repurchase agreements as of March 31, 2019:

	Remaining Contractual Maturity of the Agreements				
In thousands	**Overnight and Continuous**	**Up to 30 Days**	**30 - 90 Days**	**Greater than 90 Days**	**Total**
Repurchase agreements and repurchase-to-maturity transactions					
U.S. Treasury and agency securities	**$ 29,759**	**$**	**$**	**$**	**$ 29,759**
Total	**$ 29,759**	**$**	**$**	**$**	**$ 29,759**

11. **Borrowings**

The Corporation had long-term debt outstanding as follows:

In thousands	March 31, 2019	December 31, 2018
FHLB advances	**$ 74,216**	$ 75,216
Loan payable to local bank	**2,191**	2,300
Loan payable to local bank	**1,000**	1,000
Trust preferred subordinated debt	**5,000**	5,000
	$ 82,407	$ 83,516

The FHLB advances are collateralized by the assets defined in the security agreement and FHLB capital stock. FHLB advances have maturity dates from 2019 to 2023 with a weighted average rate of 2.09%.

The first loan payable to a local bank has a fixed rate of 4.5% for the first five years and a variable rate of interest with Prime Rate thereafter to final maturity in June 2028. The principal balance of this note may be prepaid at any time without penalty.

The second loan payable to a local bank is a commercial revolving line of credit which has a variable rate equal to the Wall Street Journal Prime Rate minus 0.25%, 5.25% at March 31, 2019. Principal shall be payable when and in amounts demanded by the bank. The principal balance of this note may be prepaid at any time without penalty.

The trust preferred subordinated debt is comprised of debt securities issued by New Windsor in June 2005 and assumed by ACNB Corporation through the acquisition. New Windsor issued $5,000,000 of 6.39% fixed rate capital securities to institutional investors in a private pooled transaction. The proceeds were transferred to New Windsor as trust preferred subordinated debt under the same terms and conditions. The Corporation then contributed the full amount to the Bank in the form of Tier 1 capital. The Corporation has, through various contractual arrangements, fully and unconditionally guaranteed all of the trust obligations with respect to the capital securities.

12. Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangible assets that have finite lives, such as core deposit intangibles, customer relationship intangibles and renewal lists, are amortized over their estimated useful lives and subject to periodic impairment testing. Core deposit intangibles are primarily amortized over ten years using accelerated methods. Customer renewal lists are amortized over their estimated useful lives which range from eight to fifteen years.

The acquisition of New Windsor resulted in goodwill of approximately $13,272,000 and generated $2,418,000 in core deposit intangibles.

Combining goodwill resulting from this transaction with existing goodwill from RIG purchases of $6,308,000, total goodwill included in the Corporation s consolidated statement of condition is $19,580,000. 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.

The carrying value and accumulated amortization of the intangible assets (RIG customer lists and New Windsor core deposit intangibles) are as follows:

In thousands	Gross carrying amount	Accumulated amortization
RIG amortized intangible assets	$ 9,300	$ 6,678
New Windsor core deposit intangibles	2,418	737

The RIG intangible assets are being amortized on a straight line basis over their estimated useful lives which range from eight to fifteen years. The New Windsor core deposit intangible is being amortized using a sum of the year s method over a 10-year period.

Goodwill is subject to impairment testing at the reporting unit level, which must be conducted at least annually. The Corporation performs impairment testing during the fourth quarter of each year, or more frequently if impairment indicators exist. We also continue to monitor other intangibles for impairment and to evaluate carrying amounts, as necessary.

13. Revenue Recognition

As of January 1, 2018, the Corporation adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as well as subsequent ASUs that modified ASC 606. The Company has elected to apply the ASU and all related ASUs using the cumulative effect approach. The implementation of the guidance had no material impact on the measurement or recognition of revenue of prior periods. The Corporation generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Additional disclosures related to the Corporation s largest sources of noninterest income within the consolidated statements of income that are subject to ASC 606 are as follows:

Income from fiduciary, investment management and brokerage activities - ACNB Bank s Trust & Investment Services, under the umbrella of ACNB Wealth Management, provides a wide range of financial services, including trust services for individuals, businesses and retirement funds. Other services include, but are not limited to, those related to testamentary trusts, life insurance trusts, charitable remainder trusts, guardianships, power of attorney, custodial accounts and investment management and advisor accounts. In addition, ACNB s Wealth Management Department offers retail brokerage-services through a third party provider. Wealth Management clients are located primarily within the Corporation s geographic markets. Assets held by the Corporation s Wealth Management Department, including trust and retail brokerage, in an agency, fiduciary or retail brokerage capacity for its customers are excluded from the consolidated financial statement since they do not constitute assets of the Corporation. Assets held by the Wealth Management Department amounted to $368,000,000 and $327,000,000 at March 31, 2019 and 2018, respectively. Income from fiduciary, investment management and brokerage activities are included in other income.

The majority of trust services revenue is earned and collected monthly, with the amount determined based on the investment funds in each trust multiplied by a fee schedule for type of trust. Each trust has one integrated set of performance obligations so no allocation is required. The performance obligation is met by performing the identified fiduciary service. Successful performance is confirmed by ongoing internal and regulatory control, measurement is by valuing the trust assets at a monthly date to which a fee schedule is applied. Wealth management fees are contractually agreed with each customer, and fee levels vary based mainly on the size of assets under management. The costs of acquiring trust customers are incremental and recognized within noninterest expense in the consolidated statements of income.

Service charges on deposit accounts - Deposits are included as liabilities in the consolidated balance sheets. Service charges on deposit accounts include: overdraft fees, which are charged when customers overdraw their accounts beyond available funds; automated teller machine (ATM) fees charged for withdrawals by deposit customers from other financial institutions ATMs; and a variety of other monthly or transactional fees for services provided to retail and business customers, mainly associated with checking accounts. All deposit liabilities are considered to have one-day terms and therefore related fees are recognized in income at the time when the services are provided to the customers. Incremental costs of obtaining deposit contracts are not significant and are recognized as expense when incurred within noninterest expense in the consolidated statements of income.

Interchange revenue from debit card transactions - The Corporation issues debit cards to consumer and business customers with checking, savings or money market deposit accounts. Debit card and ATM transactions are processed via electronic systems that involve several parties. The Corporation s debit card and ATM transaction processing is executed via contractual arrangements with payment processing networks, a processor and a settlement bank. As described above, all deposit liabilities are considered to have one-day terms and therefore interchange revenue from customers use of their debit cards to initiate transactions are recognized in income at the time when the services are provided and related fees received in the Corporation s deposit account with the settlement bank. Incremental costs associated with ATM and interchange processing are recognized as expense when incurred within noninterest expense in the consolidated statements of income.

14. New Accounting Pronouncements

ASU 2016-13

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*

ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument.

The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination (PCD assets), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price (gross up approach) to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above.

Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis.

Certain incremental disclosures are required. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within the fiscal year. For public business entities that are SEC filers, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted.

The Corporation is currently evaluating the impact this ASU will have on its consolidated financial condition or results of operations. Management has developed a committee to address CECL and the committee is currently evaluating options to comply with the ASU in a timely manner.

ASU 2018-14

In August 2018, the FASB issued ASU 2018-14, *Compensation Retirement Benefits Defined Benefit Plans General (Topic 715-20): Disclosure Framework Changes to the Disclosure Requirements for Defined Benefit Plans.*

The ASU removes the following disclosures:

- the amounts in accumulated other comprehensive income that the entity expects to recognize in net periodic benefit cost during the next fiscal year;

- the amount and timing of plan assets expected to be returned to the employer; and,

- certain related party disclosures.

The ASU clarifies the following disclosure requirements:

- the projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets must be disclosed; and,

- the accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets must be disclosed.

The ASU adds the following disclosure requirements:

- the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates; and,

- an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.

The ASU is effective for public business entities in fiscal years ending after December 15, 2020. Early adoption is permitted.

The Corporation is currently evaluating the impact this ASU will have on its consolidated financial condition or results of operations.

ACNB CORPORATION

ITEM 2 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION AND FORWARD-LOOKING STATEMENTS

Introduction

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

Forward-Looking Statements

In addition to historical information, this Form 10-Q 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 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 governmental and fiscal policies, as well as legislative and regulatory changes; the effects of new laws and regulations, specifically the impact of the Tax Cuts and Jobs Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act; impacts of the capital and liquidity requirements of the Basel III standards; the effects of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters; ineffectiveness of the business strategy due to changes in current or future market conditions; future actions or inactions of the United States government, including the 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 conditions 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; the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities, and interest rate protection agreements, as well as interest rate risks; difficulties in acquisitions and integrating and operating acquired business operations, including information technology difficulties; challenges in establishing and maintaining operations in new markets; the effects of technology changes; volatilities in the securities markets; the effect of general economic conditions and more specifically in the Corporation s market area; the failure of assumptions underlying the establishment of reserves for loan losses and estimations of values of collateral and various financial assets and liabilities; acts of war or terrorism; disruption of credit and equity markets; the ability to manage current levels of impaired assets; the loss of certain key officers; the ability to maintain the value and image of the Corporation s brand and protect the Corporation s intellectual property rights; continued relationships with major customers; and, potential impacts to the Corporation from continually evolving cybersecurity and other technological risks and attacks, including additional costs, reputational damage, regulatory penalties, and financial losses. 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 Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and any Current Reports on Form 8-K.

CRITICAL ACCOUNTING POLICIES

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

The allowance for loan losses represents management s estimate of probable losses inherent in the loan portfolio. Management makes numerous assumptions, estimates and adjustments in determining an adequate allowance. The Corporation assesses the level of potential loss associated with its loan portfolio and provides for that exposure through an allowance for loan losses. The allowance is established through a provision for loan losses charged to earnings. The allowance is an estimate of the losses inherent in the loan portfolio as of the end of each reporting period. The Corporation assesses the adequacy of its allowance on a quarterly basis. The specific methodologies applied on a consistent basis are discussed in greater detail under the caption, *Allowance for Loan Losses*, in a subsequent section of 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 Standard 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 RIG s outstanding goodwill from its most recent testing, which was performed as of October 1, 2018. A qualitative assessment on the Bank s outstanding goodwill, resulting from the 2017 New Windsor acquisition, was performed on the anniversary date of the merger which showed no impairment. Subsequent to that evaluation, ACNB concluded that it would be preferable to evaluate goodwill in the fourth quarter at year-end. This date was preferable from the anniversary date measurement as events happening nearer to year-end could be factored in if necessary. The second evaluation again revealed no impairment and it was agreed to continue to evaluate goodwill for the Bank at or near year-end. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. The Corporation has not identified any such events and, accordingly, has not tested goodwill resulting from the acquisition of New Windsor Bancorp, Inc. (New Windsor) for impairment during the three months ended March 31, 2019. Other acquired intangible assets that have finite lives, such as core deposit intangibles, customer relationship intangibles and renewal lists, are amortized over their estimated useful lives and subject to periodic impairment testing. Core deposit intangibles are primarily amortized over ten years using accelerated methods. Customer renewal lists are amortized using the straight line method over their estimated useful lives which range from eight to fifteen years.

RESULTS OF OPERATIONS

Quarter ended March 31, 2019, compared to Quarter ended March 31, 2018

Executive Summary

Net income for the three months ended March 31, 2019, was $5,864,000, compared to $4,913,000 for the same quarter in 2018, an increase of $951,000 or 19.4%. Basic earnings per share for the three month period was $0.83 in 2019 and $0.70 in 2018. The higher net income in the first quarter of 2019 was primarily a result of higher net interest income from increased volume and rate of earning assets. Net interest income for the quarter ended March 31, 2019 increased $1,103,000, or 8.1%, as increases in total interest income were greater than increases in total interest expense. Provision for loan losses was $150,000 for the quarter ended March 31, 2019, compared to $250,000 for the same quarter in 2018, based on the adequacy analysis of the allowance for loan losses calculation at the end of each period, resulting in an allowance to total loans of 1.08% at March 31, 2019. Other income increased $228,000, or 6.1%, due in part to increases in deposit fee income and insurance agency revenue. Other expenses increased $275,000, or 2.5%, due in part to increases in salaries and benefits and a deposit rewards program that increased revenue.

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Net Interest Income

Net interest income totaled $14,665,000 for the three months ended March 31, 2019, compared to $13,562,000 for the same period in 2018, an increase of $1,103,000, or 8.1%. Net interest income increased due to an increase in interest income to a greater extent than an increase in interest expense. Interest income increased $1,630,000, or 10.7%, due to a 3.8% increase in average earning asset volume from organic growth and increased rates due to market increases net of decreased purchase accounting adjustments. The increase in interest expense resulted from deposit rate increases in addition to organic deposit growth. Increased lending (average volume was up 5.0%) was a result of a concerted effort by management to offset the recent year trend of interest income decreases due to the market area s heightened competition and declines in the U.S. Treasury yields and other market driver interest rates. Only in recent quarters has this trend reversed to higher yields although the difference between longer term rates and shorter term rates is compressed. These driver rates affect new loan originations and are indexed to a portion of the loan portfolio in that a change in the driver rates changes the yield on new loans and on existing loans at subsequent interest rate reset dates. In this manner, interest income yield was positively affected as new loans replace paydowns on existing loans and variable rate loans reset to new higher rates in these years. Interest income increased on investment securities due to higher market rates. An appropriate amount of earning assets remained in short-term, low-rate money market type accounts during the first quarter of 2019; and there exists ample ability to borrow for liquidity needs. The ability to increase lending is contingent on the effects of intense competition that has reduced new loans and may result in the payoff of existing loans, as well as economic conditions in the Corporation s marketplace. As to funding costs, interest rates on alternative funding sources, such as the FHLB, and other market driver rates are factors in rates the Corporation and the local market pay for deposits. However, during the recent quarters, rates on time deposits were raised in order to compete with competition to increase this funding source. Interest expense increased $527,000, or 31.1%, due to higher rates on transaction deposits, certificate of deposit rate increases and use of higher cost borrowings. This trend of higher rates is expected to continue due to higher rates at competing banks due to liquidity needs despite the Federal Reserve FOMC current position of stabilizing short-term rates after increasing these rates in stages starting in mid-December 2015 to its current range of 2.25% to 2.50%. Over the longer term, the Corporation continues its strategic direction to increase asset yield and interest income by means of loan growth and rebalancing the composition of earning assets.

The net interest spread for the first quarter of 2019 was 3.74% compared to 3.64% during the same period in 2018. Also comparing the first quarter of 2019 to 2018, the yield on interest earning assets increased by 0.28% and the cost of interest bearing liabilities increased by 0.18%. The net interest margin was 3.93% for the first quarter of 2019 and 3.77% for the first quarter of 2018. The net interest margin increase was net of lower purchase accounting adjustments which decreased 10 basis points, and was increased by acquiring and originating loans at the current market rate in order to increase loan volume and attempt to maintain total net interest income net of purchasing lower yielding investments to properly collateralize local government accounts and repurchase agreements.

Average earning assets were $1,514,000,000 during the first quarter of 2019, an increase of $55,000,000 from the average for the first quarter of 2018. Average interest bearing liabilities were $1,154,000,000 in the first quarter of 2019, an increase of $18,000,000 from the same period in 2018. Non-interest demand deposits increased $22,000,000 on average.

Provision for Loan Losses

The provision for loan losses was $150,000 in the first quarter of 2019 and $250,000 in the first quarter of 2018. The determination of a need for a provision was a result of the analysis of the adequacy of the allowance for loan losses calculation. The allowance for loan and lease losses does not include the loans acquired from the New Windsor acquisition which were recorded at fair value as of the acquisition date. Without the New Windsor acquired loans, total impaired loans at March 31, 2019 were 1.5% lower compared to December 31, 2018. Nonaccrual loans decreased by 2.5%, or $84,000, since December 31, 2018; all substandard loans increased by 9.4% in that period. 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. Management concluded that the loan portfolio exhibited continued general improvement in quantitative and qualitative measurements as shown in the tables and narrative in this Management s Discussion and Analysis and the Notes to the Consolidated Financial Statements. This assessment concluded that credit quality was stable, charge offs were low, and past due loans manageable. This same analysis concluded that the unallocated allowance should be in the same range in 2019 compared with the previous quarter. For more information, please refer to *Allowance for Loan Losses* in the following Financial Condition section of this Management s Discussion and Analysis of Financial Condition and Results of Operations. ACNB

charges confirmed loan losses to the allowance and credits the allowance for recoveries of previous loan charge-offs. For the first quarter of 2019, the Corporation had net charge-offs of $94,000, as compared to net charge-offs of $559,000 for the first quarter of 2018.

Other Income

Total other income was $3,940,000 for the three months ended March 31, 2019, up $228,000, or 6.1%, from the first quarter of 2018. Fees from deposit accounts increased by $122,000, or 15.0%, due to an enhanced fee schedule connected to the retail deposit rewards program. Fee volume also varies with balance levels, account transaction activity, and customer-driven events such as overdrawing account balances. Various specific government regulations effectively limit fee assessments related to deposit accounts, making future revenue levels uncertain. Revenue from ATM and debit card transactions increased by $8,000 or 1.5%, to $538,000 due to variations in volume and mix. The longer term trend had been increases resulting from consumer desire to use more electronic delivery channels; however, regulations or legal challenges for large financial institutions may impact industry pricing for such transactions and fees in connection therewith in future periods, the effect of which cannot be currently quantified. A more immediate challenge to this revenue source is the retail system-wide security breaches in the merchant base that are negatively affecting consumer confidence in the debit card channel. Income from fiduciary, investment management and brokerage activities, which includes fees from both institutional and personal trust, investment management services, estate settlement and brokerage services, totaled $592,000 for the three months ended March 31, 2019, as compared to $571,000 for the first quarter of 2018, a 3.7% net increase as a net result of higher fee volume from increased assets under management, lower sporadic estate fee income and higher fees on brokerage relationships. Earnings on bank-owned life insurance increased by $7,000, or 2.7%, as a result of varying crediting rates. In 2018, an additional $52,000 was received on a death claim. At the Corporation s wholly-owned insurance subsidiary, Russell Insurance Group, Inc. (RIG), revenue was up by $119,000, or 9.9%, to $1,320,000 during the period due to higher direct bill volume, including volume on new books of business purchased in the interim period. A continuing risk to RIG revenue is nonrenewal of large commercial accounts and actions by insurance carriers to reduce commissions paid to agencies such as RIG. Contingent or extra commission payments from insurance carriers are received in the second quarter of each year. Contingent commissions in 2019 are expected to be lower than 2018 due to loss trends in the entire insurance marketplace. Heightened pressure on commissions is expected to continue in this business line from insurance company actions. There were no gains or losses on sales of securities during the first quarters of 2019 and 2018. A $33,000 net gain was recognized on local bank and CRA-related equity securities during the first quarter of 2019 due to frequent market value changes in publicly-traded stocks, compared to a $33,000 net loss during the first quarter of 2018. Other income in the three months ended March 31, 2019, was down by $63,000, or 19.8%, to $255,000 due to lower sales of residential mortgages, partially offset by net other fee income increases, mostly volume related.

Other Expenses

Other expenses for the quarter ended March 31, 2019 were $11,261,000, an increase of $275,000 or 2.5%.

The largest component of other expenses is salaries and employee benefits, which increased by $338,000, or 5.1%, when comparing the first quarter of 2019 to the same period a year ago. Overall, the increase in salaries and employee benefits was the result of increases as follows:

- replacing customer-facing staff due to a competitive labor market;
- increased staff in support functions and higher skilled mix of employees necessitated by regulations and growth;
- normal merit increases to employees and associated payroll taxes;

- varying performance-based commissions and incentives;

- market changes in actively managing employee benefit plan costs, including health insurance;

- varying cost of 401(k) plan and non-qualified retirement plan benefits; and,

- defined benefit pension expense, which was up by $127,000, or 169.3%, when comparing the three months ended March 31, 2019, to the three months ended March 31, 2018, resulting from the change in discount rates which increases or decreases the future pension obligations (creating volatility in the expense), return on assets at the latest annual evaluation date due to market conditions (equity markets were at a low point at the 2018 year-end valuation date) and changes in actuarial assumptions reflecting increased longevity.

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 could also be higher in future years due to volatility in the discount rates at the latest measurement date, lower plan returns, and change in mortality tables utilized. The ACNB plan has maintained a well-funded status under ERISA rules.

Net occupancy expense increased by $84,000, or 10.8%, mostly due to higher net lease expense and varying winter season- related expenses. Equipment expense decreased by $59,000, or 5.1%, due to the lower small-ticket tech equipment expenditures and lower outsourced processing costs. Regardless of the decreased first quarter 2019 expense, equipment expense is subject to ever-increasing technology demands and the need for system upgrades for security and reliability purposes.

Professional services expense totaled $200,000 during the first quarter of 2019, as compared to $369,000 for the same period in 2018, a decrease of $169,000, or 45.8%. This category includes expenses related to legal corporate governance, risk, compliance management and audit engagements, and legal counsel matters in connection with loans. It varies with specific engagements that are not on a regular recurring basis; in particular loan legal expense (due to a particular loan in 2018) and loan review costs (due to engagement timing) were lower in 2019.

Marketing and corporate relations expenses were $139,000 for the first quarter of 2019, or 35.0% higher, as compared to the same period of 2018. Marketing expense varies with the timing and amount of planned advertising production and media expenditures, typically related to the promotion of certain in-market banking and trust products.

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 expense was $(53,000) and $48,000 for the three months ended March 31, 2019 and 2018, respectively. The expense varies based upon the number and mix of commercial and residential real estate properties, unpaid property taxes, and deferred maintenance required upon acquisition. In addition, some properties suffer decreases in value after acquisition, requiring write-downs to fair value during the prolonged marketing cycles for these distressed properties. The lower expense in 2019 was related to a better final disposition recovery on two properties. Foreclosed assets held for resale expenses or recoveries will vary in the remainder of 2019 depending on the successful closing of sales agreements on some existing properties and the unknown expenses related to new properties acquired.

Other tax expense increased by $56,000, or 27.2%, comparing the three months ended March 31, 2019 and 2018, due to higher Pennsylvania Bank Shares Tax. The Pennsylvania Bank Shares Tax is a shareholders equity-based tax and is subject to increases based on state government parameters and the level of the stockholders equity base that increased with the New Windsor merger and retained earnings equity. Supplies and postage expense decreased by 4.2% due to variation in timing of sporadic refills. FDIC and regulatory expense decreased 8.2% based on FDIC variations in asset base and rate. Intangible amortization decreased 15.8% due to fully amortized insurance books of business. Other operating expenses increased by $143,000, or 12.9%, in the first quarter of 2019, as compared to the first quarter of 2018. Increases included increases for retail deposit rewards product and training related expense. Losses, which include the expense of reimbursing debit card customers for unauthorized transactions to their accounts and other third-party fraudulent use, added approximately $25,000 to other expenses in the first quarter of 2019 compared to $56,000 in the first quarter of 2018. Third-party breaches also cause additional card inventory and processing costs to the Corporation, none of which is expected to be recovered from the third-party merchants or other parties where the breaches occur. The debit card electronic delivery channel is valued by customers and provides significant revenue to the Corporation. The expense related to reimbursements is unpredictable and varying, but ACNB has policies and procedures to limit exposure.

Provision for Income Taxes

The Corporation recognized income taxes of $1,330,000, or 18.5% of pretax income, during the first quarter of 2019, as compared to $1,125,000, or 18.6% of pretax income, during the same period in 2018. The variances from the federal statutory rate of 21% in the respective periods 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), investment in bank-owned life insurance, and investments in low-income housing partnerships (which qualify for federal tax credits). In addition, both years includes Maryland corporation income taxes. Low-income housing tax credits were $72,000 for the three months ended March 31, 2019 and 2018, respectively.

FINANCIAL CONDITION

Assets totaled $1,671,159,000 at March 31, 2019, compared to $1,647,724,000 at December 31, 2018, and $1,611,015,000 at March 31, 2018. Average earning assets during the three months ended March 31, 2019, increased to $1,513,939,000 from $1,458,845,000 during the same period in 2018. Average interest bearing liabilities increased in 2019 to $1,153,627,000 from $1,136,060,000 in 2018, while average non-interest bearing deposits increased by $22,104,000.

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 changes in the securities portfolio were the net result of purchases and matured securities to provide proper collateral for public deposits. Investing into investment security portfolio assets over the last several years was made more challenging due to the Federal Reserve Bank 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 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 March 31, 2019, the securities balance included a net unrealized loss on available for sale securities of $541,000, net of taxes, on amortized cost of $161,648,000 versus a net unrealized loss of $1,651,000, net of taxes, on amortized cost of $163,862,000 at December 31, 2018, and a net unrealized loss of $2,246,000, net of taxes, on amortized cost of $158,625,000 at March 31, 2018. The change in fair value of available for sale securities during 2019 was a result of the lower amount of investments in the available for sale portfolio, offset by an increase in fair value from a decrease 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. The Federal Reserve ceased their rate-decreasing Quantitative Easing program in 2014 and increased the fed funds rate in mid-December 2015 through December 2018 after which the Federal Reserve indicated that further increases were on hold which caused the U.S. Treasury yield curve to decrease in the time relevant to the investment securities in the Corporation s portfolio as of March 31, 2019. Previously, after a prolonged period of inaction by the Federal Reserve after lowering rates on the yield curve most conducive to stimulating the housing market and to boost employment and consumption was augmented by a combination of weak domestic and international economic conditions, leading to generally lower rates on the yield curve. However, fair values were volatile on any given day in all periods presented and such volatility will continue. The changes in value are deemed to be related solely to changes in interest rates as the credit quality of the portfolio is high.

At March 31, 2019, the securities balance included held to maturity securities with an amortized cost of $26,073,000 and a fair value of $25,871,000, as compared to an amortized cost of $27,266,000 and a fair value of $26,911,000 at December 31, 2018, and an amortized cost of $41,378,000 and a fair value of $40,758,000 at March 31, 2018. 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 were not classified as available for sale because 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 FHLB borrowings. No held to maturity securities were acquired from New Windsor.

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 8 Securities in the Notes to Consolidated Financial Statements for more information on the security portfolio and Note 10 Fair Value Measurements in the Notes to Consolidated Financial Statements for more information about fair value.

Loans

Loans outstanding increased by $63,581,000, or 5.1%, from March 31, 2018, to March 31, 2019, and decreased by $1,130,000, or 0.1%, from December 31, 2018, to March 31, 2019. The slight decline year to date is attributable to selling most new residential mortgages and early payoffs. The year over year increase in loan volume was a net increase of new loans net of payoff and paydowns. These results came from the focused efforts by management to lend to creditworthy borrowers subject to the Corporation s disciplined underwriting standards, despite intense competition. In all periods, residential real estate lending and refinance activity was slow and commercial loans were subject to refinancing to competition for different rates or terms. As a normal course of business, more payoffs are anticipated in the remainder of 2019 from either customers cash reserves or refinancing at competing banks. Nonetheless, during the first three months of 2019, total commercial purpose loans increased while local market portfolio residential mortgages decreased. Total commercial purpose segments increased $5,905,000, or 0.8%, as compared to December 31, 2018. These loans are spread among diverse categories that include municipal governments/school districts, commercial real estate, commercial real estate construction, and commercial and industrial. Included in the commercial, financial and agricultural category are loans to Pennsylvania school districts, municipalities (including townships) and essential purpose authorities. In most cases, these loans are backed by the general obligation of the local government body. In many cases, these loans are obtained through a bid process with other local and regional banks. The loans are bank qualified for mostly tax free interest income treatment for federal income taxes. These loans totaled $98,235,000 at March 31, 2019, an increase of 5.7% from $92,949,000 held at the end of 2018; these loans are especially

subject to refinancing. Residential real estate mortgage lending, which includes smaller commercial purpose loans secured by the owner s home, decreased by $6,903,000, or 1.3%, as compared to December 31, 2018. These loans are to local borrowers who preferred loan types that would not be sold into the secondary mortgage market. Of the $537,759,000 total in residential mortgage loans at March 31, 2019, $147,600,000 were 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, property values deteriorate, or rates increase sharply. Non-real estate secured consumer loans comprise 1.1% of the portfolio, with automobile-secured loans representing 0.0% of the portfolio.

Most of the Corporation s lending activities are with customers located within southcentral Pennsylvania and in the northern Maryland area. This region currently and historically has lower unemployment rates than the U.S. as a whole. Included in commercial real estate loans are loans made to lessors of non-residential properties that total $293,051,000, or 23.0% of total loans, at March 31, 2019. 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 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.

Allowance for Loan Losses

ACNB maintains the allowance for loan losses at a level believed to be adequate by management to absorb probable 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 twelve quarters 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:

- the 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;

- 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; specifically reserves where the Corporation believes that tertiary losses are probable above the loss amount derived using appraisal-based loss estimation, where such additional loss estimates are in accordance with regulatory and GAAP guidance. Appraisal-based loss derivation does not fully develop the loss present in certain unique, ultimately bank-owned collateral. The Corporation has determined that the amount of provision in 2019 and the resulting allowance at March 31, 2019, are appropriate given the continuing level of risk in the loan portfolio. Further, management believes the unallocated allowance is appropriate, because even though the impaired loans decreased since 2018 the growth in the loan portfolio is centered around commercial 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 potential losses at March 31, 2019. The amount of unallocated portion of the allowance was decreased at March 31, 2019 as management concluded that the loan portfolio exhibited continued general improvement in quantitative and qualitative measurements. This assessment concluded that credit quality was stable, charge offs were low, and past due loans manageable.

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, which is consistent with recent improvement in the credit quality in the loan portfolio. The provision for year-to-date March 31, 2019 and 2018, was $150,000 and $250,000, respectively. More specifically, even though total loans increased and the provision expense decreased, the allowance for loan losses was derived with data that most impaired credits were, in the opinion of management, adequately collateralized.

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.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. Upon adoption, the change in this accounting guidance could result in an increase in the Corporation s allowance for loan losses and require the Corporation to record loan losses more rapidly.

The allowance for loan losses at March 31, 2019, was $14,020,000, or 1.08% of loans, as compared to $13,417,000, or 1.08% of loans, at March 31, 2018, and $13,964,000, or 1.07% of loans, at December 31, 2018. The decrease from prior periods resulted from charge-offs exceeding recoveries and provisions, as shown in the table below. In the following discussion, acquired loans from New Windsor were recorded at fair value at the acquisition date and are not included in the tables and information below, see more information in Note 9 Loans in the Notes to Consolidated Financial Statements.

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Changes in the allowance for loan losses were as follows:

In thousands	Three Months Ended March 31, 2019	Year Ended December 31, 2018	Three Months Ended March 31, 2018
Beginning balance - January 1	**$ 13,964**	$ 13,976	$ 13,976
Provisions charged to operations	**150**	1,620	250
Recoveries on charged-off loans	**38**	178	17
Loans charged-off	**(132)**	(1,810)	(826)
Ending balance	**$ 14,020**	$ 13,964	$ 13,417

Loans past due 90 days and still accruing were $2,871,000 and nonaccrual loans were $3,333,000 as of March 31, 2019. $2,285,000 of the nonaccrual balance at March 31, 2019, were in troubled debt restructured loans. $3,858,000 of the impaired loans were accruing troubled debt restructured loans. Loans past due 90 days and still accruing were $1,951,000 at March 31, 2018, while nonaccruals were $4,499,000. $2,552,000 of the nonaccrual balance at March 31, 2018, was in troubled debt restructured loans. $3,957,000 of the impaired loans were accruing troubled debt restructured loans. Loans past due 90 days and still accruing were $3,345,000 at December 31, 2018, while nonaccruals were $3,417,000. $2,343,000 of the nonaccrual balance at December 31, 2018, were in troubled debt restructured loans. $3,883,000 of the impaired loans were accruing troubled debt restructured loans. Total additional loans classified as substandard (potential problem loans) at March 31, 2019, March 31, 2018, and December 31, 2018, were approximately $2,374,000, $960,000 and $1,158,000, respectively.

The acquisition of New Windsor loans at fair value did not require a provision expense. More specifically, even with the manageable level of nonaccrual loans and with substandard loans in the first quarter of 2019, a $150,000 provision addition to the allowance was necessary due to the level of charge-offs. As to nonaccrual and substandard loans, management believes that adequate collateralization generally exists for these 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.

Information on nonaccrual loans, by collateral type rather than loan class, at March 31, 2019, as compared to December 31, 2018, is as follows:

Dollars in thousands	Number of Credit Relationships	Balance	Specific Loss Allocations	Current Year Charge-Offs	Location	Originated
March 31, 2019						
Owner occupied commercial real estate	**4**	**$ 2,796**	**$**	**$**	**In market**	**2007 - 2011**
Investment/rental residential real estate	**2**	**537**			**In market**	**2008 - 2013**
Total	**6**	**$ 3,333**	**$**	**$**		
December 31, 2018						
Owner occupied commercial real estate	5	2,880		33	In market	1995 - 2011
Investment/rental residential real estate	2	537		376	In market	2008 - 2011
Commercial and industrial				809	In market	2006 - 2015
Total	7	$ 3,417	$	$ 1,218		

Management deemed it appropriate to provide this type of more detailed information by collateral type in order to provide additional detail on the loans.

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 2015 for purposes listed in the classifications in the table above.

Owner occupied commercial real estate and construction at March 31, 2019, includes four unrelated loan relationships, all of which, except for a $2,046,000 loan relationship for a retreat property, have balances of less than $411,000 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 retreat property loan originated in 2008 was added to nonaccrual in the second quarter of 2017, the loan is current with modified terms and is supported by adequate collateral. One of two improved parcels is being actively marketed for sale. The other loans in this category were originated between 2007 and 2011 and are business loans impacted by specific borrower credit situations. Most loans in this category are making principal payments. Collection efforts will continue unless it is deemed in the best interest of the Corporation to initiate foreclosure procedures.

Investment/rental residential real estate at March 31, 2019, includes two loan relationships totaling $537,000 for which the real estate is collateral and the purpose of which is for speculation, rental, or other non-owner occupied uses. One unrelated loan for approximately $101,000 in this category at April 2015, was stayed from further foreclosure action by a bankruptcy filing. The other property was sold at Sheriff s Sale to a third party subsequent to March 31, 2018. If the sale is executed, the bank will recover all principal due.

There were no impaired commercial and industrial loans at March 31, 2019.

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 adjustment which, in turn, affects the calculation of losses inherent in the portfolio. The provision for loan losses (or lack thereof) for 2019 and 2018 was a result of the measurement of the adequacy of the allowance for loan losses at each period.

Premises and Equipment

During the quarter ended June 30, 2016, a building was sold and the Corporation is leasing back a portion of that building. In connection with these transactions, a gain of $1,147,000 was realized, of which $447,000 was recognized in the quarter ended June 30, 2016 and the remaining $700,000 deferred for future recognition over the lease back term. A reduction of lease expense of $18,000 was recognized in the first three months of 2019 and 2018, respectively. ACNB valued six buildings acquired from New Windsor at $8,624,000 at July 1, 2017.

Foreclosed Assets Held for Resale

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 real estate in lieu of the foreclosure process. These fair values, less estimated costs to sell, become the Corporation s new cost basis. Fair values are based on appraisals that consider the sales prices of similar properties in the proximate vicinity less estimated selling costs. The carrying value of real estate acquired through foreclosure totaled $48,000 for one property and borrower at March 31, 2019, compared to $155,000 for two unrelated properties and borrowers at December 31, 2018. The decrease in the carrying value was due to the properties sold in 2018. All properties are actively marketed. The Corporation expects to obtain and market additional foreclosed assets through the remainder of 2019; however, the total amount and timing is currently not certain.

Deposits

ACNB relies on deposits as a primary source of funds for lending activities with total deposits of $1,367,058,000 as of March 31, 2019. Deposits increased by $53,644,000, or 4.1%, from March 31, 2018, to March 31, 2019, and increased by $18,966,000, or 1.4%, from December 31, 2018, to March 31, 2019. Deposits acquired from New Windsor totaled $293,333,000 on July 1, 2017. Deposits vary between quarters mostly reflecting different levels held by local government and school districts during different times of the year. 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 a local government investment trust, credit unions and larger regional banks. During the recession and subsequent slow recovery, deposit growth mix experienced a 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; however, more recent trends suggest a return to more normal, lower balances. 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 recover, funds could leave the Corporation or be priced higher to maintain deposits.

Borrowings

Short-term borrowings are comprised primarily of securities sold under agreements to repurchase and short-term borrowings from the FHLB. As of March 31, 2019, short-term borrowings were $29,759,000, as compared to $34,648,000 at December 31, 2018, and $33,435,000 at March 31, 2018. Agreements to repurchase accounts are within the commercial and local government customer base and have attributes similar to core deposits. Investment securities are pledged in sufficient amounts to collateralize these agreements. In comparison to year-end 2018, repurchase agreement balances were down $4,857,000, or 14.0%, due to changes in the cash flow position of ACNB s commercial and local government customer base and competition from non-bank sources. There were no short-term FHLB borrowings at March 31, 2019 and 2018, and there were $32,000 in short-term FHLB borrowings at December 31, 2018. Short-term FHLB borrowings are used to even out funding from seasonal and daily fluctuations in the deposit base. Long-term borrowings consist of longer-term advances from the FHLB that provides term funding of loan assets, and Corporate borrowings that were acquired or originated in regards to the acquisition of New Windsor. Long-term borrowings totaled $82,407,000 at March 31, 2019, versus $83,516,000 at December 31, 2018, and $95,316,000 at March 31, 2018. The Corporation decreased long-term borrowings 13.5% from March 31, 2018. A $4.6 million loan was paid down to $2.2 million outstanding balance on a borrowing from a local bank that had been made to fund the cash payment to shareholders of the New Windsor acquisition. RIG borrowed $1.0 million from a local bank at the end of the third quarter 2018 to fund a book of business purchase. $11.5 million was the net decrease to FHLB borrowings to balance loan demand and deposit growth. Laddered FHLB fixed-rate term advances were taken in 2019 to mature from 2022 to 2023 to reduce net liability sensitivity. In addition, $5 million was subordinated debt acquired from New Windsor. Please refer to the *Liquidity* discussion below for more information on the Corporation s ability to borrow.

Capital

ACNB s capital management strategies have been developed to provide an appropriate rate of return, in the opinion of management, to stockholders, while maintaining its well-capitalized regulatory position in relationship to its risk exposure. Total stockholders equity was $173,793,000 at March 31, 2019, compared to $168,137,000 at December 31, 2018, and $156,605,000 at March 31, 2018. Stockholders equity increased in the first three months of 2019 by $5,656,000 due in part to $4,243,000 in earnings retained in capital.

The acquisition of New Windsor resulted in 938,360 new ACNB shares issued to the New Windsor shareholders valued at $28,620,000 in 2017.

A $1,274,000 decrease in accumulated other comprehensive loss was a result of a net increase in the fair value of the investment portfolio and changes in the net funded position of the defined benefit pension plan. Other comprehensive income or loss is mainly caused by fixed-rate investment securities gaining or losing value in different interest rate environments and changes in the net funded position of the defined benefit pension plan.

The primary source of additional capital to ACNB is earnings retention, which represents net income less dividends declared. During the first three months of 2019, ACNB earned $5,864,000 and paid dividends of $1,621,000 for a dividend payout ratio of 27.6%. During the first three months of 2018, ACNB earned $4,913,000 and paid dividends of $1,405,000 for a dividend payout ratio of 28.6%.

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. Year-to-date March 31, 2019, 3,662 shares were issued under this plan with proceeds in the amount of $13,000. Year-to-date March 31, 2018, 4,138 shares were issued under this plan with proceeds in the amount of $121,000. Proceeds are used for general corporate purposes.

ACNB Corporation has a Restricted Stock plan available to selected officers and employees of the Bank, to advance the best interest of ACNB Corporation and its shareholders. The plan provides those persons who have responsibility for its growth with additional incentive by allowing them to acquire an ownership in ACNB Corporation and thereby encouraging them to contribute to the success of the Corporation. As of March 31, 2019, there were 26,045 shares of common stock granted as restricted stock awards to employees of the subsidiary bank and 173,955 shares available for grant. The restricted stock plan expired by its own terms after 10 years on February 24, 2019, and no further shares may be issued under the plan. Proceeds are used for general corporate purposes.

On May 1, 2018, stockholders approved and ratified the ACNB Corporation 2018 Omnibus Stock Incentive Plan, effective as of March 20, 2018, in which awards shall not exceed, in the aggregate, 400,000 shares of common stock, plus any shares that are authorized, but not issued, under the 2009 Restricted Stock Plan.

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 March 31, 2019, and December 31, 2018, that ACNB s banking subsidiary met all minimum capital adequacy requirements to which it is subject and is categorized as well capitalized for regulatory purposes. 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 began January 1, 2015, while larger institutions (generally those with assets of $250 billion or more) began compliance effective 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%; 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 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 began on January 1, 2016.

Under the initially 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 these 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 Corporation elected to opt-out.

The 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 than $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 calculated regulatory ratios as of March 31, 2019, and confirmed no material impact on the capital, operations, liquidity, and earnings of the Corporation and the banking subsidiary from the changes in the regulations.

Risk-Based Capital

ACNB Corporation considers the capital ratios of the banking subsidiary to be the relevant measurement of capital adequacy.

The banking subsidiary s capital ratios are as follows:

	March 31, 2019	**December 31, 2018**	**To Be Well Capitalized Under Prompt Corrective Action Regulations**
Tier 1 leverage ratio (to average assets)	**9.77%**	9.44%	5.00%
Common Tier 1 capital ratio (to risk-weighted assets)	**13.24%**	12.89%	6.50%
Tier 1 risk-based capital ratio (to risk-weighted assets)	**13.24%**	12.89%	8.00%
Total risk-based capital ratio	**14.42%**	14.07%	10.00%

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 March 31, 2019, ACNB s banking subsidiary had a borrowing capacity of approximately $705,342,000 from the FHLB, of which $600,103,000 was available. Because of various restrictions and requirements on utilizing the available balance, ACNB considers $450,000,000 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 approximately $29,759,000 and $34,616,000 at March 31, 2019, and December 31, 2018, respectively. These agreements vary in balance according to the cash flow needs of customers and competing accounts at other financial organizations.

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.

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.

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 March 31, 2019, the Corporation had unfunded outstanding commitments to extend credit of approximately $282,896,000 and outstanding standby letters of credit of approximately $3,757,000. 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.

Market Risks

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.

RECENT DEVELOPMENTS

BANK SECRECY ACT (BSA) - The Bank Secrecy Act, as amended by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), imposes obligations on U.S. financial institutions, including banks and broker-dealer subsidiaries, to implement policies, procedures and controls which are reasonably designed to detect and report instances of money laundering and the financing of terrorism. Financial institutions also are required to respond to requests for information from federal banking agencies and law enforcement agencies. Information sharing among financial institutions for the above purposes is encouraged by an exemption granted to complying financial institutions from the privacy provisions of the Gramm-Leach-Bliley Act and other privacy laws. Financial institutions that hold correspondent accounts for foreign banks or provide banking services to foreign individuals are required to take measures to avoid dealing with certain foreign individuals or entities, including foreign banks with profiles that raise money laundering concerns, and are prohibited from dealing with foreign shell banks and persons from jurisdictions of particular concern. The primary federal banking agencies and the Secretary of the Treasury have adopted regulations to implement several of these provisions. Effective May 11, 2018, the Bank must comply with the new Customer Due Diligence Rule, which clarified and strengthened the existing obligations for identifying new and existing customers and includes risk-based procedures for conducting ongoing customer due diligence. All financial institutions are also required to establish internal anti-money laundering programs. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act. The Corporation s banking subsidiary has a BSA and USA PATRIOT Act compliance program commensurate with its risk profile and appetite.

TAX CUTS AND JOBS ACT - On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. Among other changes, the Tax Cuts and Jobs Act reduced the federal corporate tax rate from 35% to 21% effective January 1, 2018. ACNB anticipates that this tax rate change should reduce its federal income tax liability in future years, as it did in 2018. However, the Corporation did recognize certain effects of the tax law changes in 2017. U.S. generally accepted accounting principles require companies to revalue their deferred tax assets and liabilities as of the date of enactment, with resulting tax effects accounted for in the reporting period of enactment. Since the enactment took place in December 2017, the Corporation revalued its net deferred tax assets in the fourth quarter of 2017, resulting in an approximately $1.7 million reduction to earnings in 2017.

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 was intended to effect a fundamental restructuring of federal banking regulation. Among other things, Dodd-Frank created the 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 compliance costs and could increase the banking subsidiary 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 are 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 as of December 31, 2009. 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.

Deposit Insurance

Dodd-Frank permanently increased the maximum deposit insurance amount for banks, savings institutions, and credit unions to $250,000 per depositor. Dodd-Frank also broadened 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. Dodd-Frank also 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 the stockholders. 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

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.

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 amended 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 created the 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 the consumer s 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, 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 or condition has had little or no impact; however, management will continue to monitor the implementation of the rule for any potential effects on the Corporation s business.

DEPARTMENT OF DEFENSE MILITARY LENDING RULE - In 2015, the U.S. Department of Defense issued a final rule which restricts pricing and terms of certain credit extended to active duty military personnel and their families. This rule, which was implemented effective October 3, 2016, caps the interest rate on certain credit extensions to an annual percentage rate of 36% and restricts other fees. The rule requires financial institutions to verify whether customers are military personnel subject to the rule. The impact of this final rule, and any subsequent amendments thereto, on the Corporation s lending activities and the Corporation s statements of income or condition has had little or no impact; however, management will continue to monitor the implementation of the rule for any potential effects on the Corporation s business.

SUPERVISION AND REGULATION

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 subsidiaries. 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 of the Federal Reserve, 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.

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 shareholders. 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 and impact 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.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management monitors and evaluates changes in market conditions on a regular basis. Based upon the most recent review, management has determined that there have been no material changes in market risks since year-end 2018. For further discussion of year-end information, please refer to the Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

ITEM 4 - CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, 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.

Disclosure controls and procedures are Corporation controls and other procedures that are designed to ensure that information required to be disclosed by the Corporation in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

There were no changes in the Corporation s internal control over financial reporting during the quarterly period ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

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PART II - OTHER INFORMATION

ACNB CORPORATION

ITEM 1 - LEGAL PROCEEDINGS

As of March 31, 2019, 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 assets are the subject, which could have a material adverse effect on ACNB or its subsidiaries or their results of operations. 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 1A - RISK FACTORS

Management has reviewed the risk factors that were previously disclosed in the Annual Report on Form 10-K for the fiscal year ended December 31, 2018. There are no material changes in the risk factors as previously disclosed in the Form 10-K.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On November 3, 2008, the Corporation announced a plan to purchase up to 120,000 shares of its outstanding common stock. There were no treasury shares purchased under this plan during the quarter ended March 31, 2019. The maximum number of shares that may yet be purchased under this stock repurchase plan is 57,400.

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 March 31, 2019, there were 25,945 shares of common stock granted as restricted stock awards to employees of the subsidiary bank. The restricted stock plan expired by its own terms after 10 years on February 24, 2019, and no further shares may be issued under the plan. 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. Post-Effective Amendment No. 1 to this Form S-8 was filed with the Commission on March 8, 2019, effectively transferring the 174,055 authorized, but not issued, shares under the ACNB Corporation 2009 Restricted Stock Plan to the ACNB Corporation 2018 Omnibus Stock Incentive Plan.

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 March 31, 2019, 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 March 31, 2019, there were 157,034 shares of common stock issued through the ACNB Corporation Dividend Reinvestment and Stock Purchase Plan.

On May 1, 2018, stockholders approved and ratified the ACNB Corporation 2018 Omnibus Stock Incentive Plan, effective as of March 20, 2018, in which awards shall not exceed, in the aggregate, 400,000 shares of common stock, plus any shares that are authorized, but not issued, under the 2009 Restricted Stock Plan. The Corporation s Registration Statement under the Securities Act of 1933 on Form S-8 for the ACNB Corporation 2018 Omnibus Stock Incentive Plan was filed with the Securities and Exchange Commission on March 8, 2019. In addition, on March 8, 2019, the Corporation filed Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 for the 2009 Restricted Stock Plan to add the 2018 Omnibus Stock Incentive Plan to the registration statement.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES - NOTHING TO REPORT.

ITEM 4 - MINE SAFETY DISCLOSURES - NOT APPLICABLE.

ITEM 5 - OTHER INFORMATION - NOTHING TO REPORT.

ITEM 6 - EXHIBITS

The following exhibits are included in this report:

Exhibit 2.1	Agreement and Plan of Reorganization by and among ACNB Corporation, ACNB South Acquisition Subsidiary, LLC, ACNB Bank, New Windsor Bancorp, Inc., and New Windsor State Bank dated as of November 21, 2016, as amended. (Incorporated by reference to Annex A of the Registrant s Registration Statement No. 333-215914 on Form S-4, filed with the Commission on February 6, 2017.) Schedules are omitted; the Registrant agrees to furnish copies of Schedules to the Securities and Exchange Commission upon request.
Exhibit 2.2	Amendment No. 2 to Agreement and Plan of Reorganization by and among ACNB Corporation, ACNB South Acquisition Subsidiary, LLC, ACNB Bank, New Windsor Bancorp, Inc., and New Windsor State Bank dated as of April 18, 2017. (Incorporated by reference to Exhibit 2.2 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed with the Commission on August 4, 2017.)
Exhibit 3(i)	Amended and Restated Articles of Incorporation of ACNB Corporation. (Incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K, filed with the Commission on May 7, 2018.)
Exhibit 3(ii)	Amended and Restated Bylaws of ACNB Corporation. (Incorporated by reference to Exhibit 3.2 of the Registrant s Current Report on Form 8-K, filed with the Commission on May 7, 2018.)
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	Amended and Restated Executive Supplemental Life Insurance Plan Applicable to James P. Helt, David W. Cathell and Lynda L. Glass. (Incorporated by reference to Exhibit 10.3 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Commission on March 6, 2015.)
Exhibit 10.3	Amended and Restated Director Supplemental Life Insurance Plan Applicable to Richard L. Alloway II, Frank Elsner, III, Todd L. Herring, Scott L. Kelley, James J. Lott, Donna M. Newell, J. Emmett Patterson, Daniel W. Potts, Marian B. Schultz, D. Arthur Seibel, Jr., David L. Sites, Alan J. Stock and James E. Williams. (Incorporated by reference to Exhibit 10.4 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Commission on March 6, 2015.)
Exhibit 10.4	Amended and Restated Director Deferred Fee Plan Applicable to Richard L. Alloway II, Frank Elsner, III, Todd L. Herring, Scott L. Kelley, James J. Lott, Donna M. Newell, J. Emmett Patterson, Marian B. Schultz, David L. Sites, Alan J. Stock 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.)
Exhibit 10.5	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 10.6	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 10.7	Amended and Restated 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 10.8	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.)

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Exhibit 10.9	2009 Restricted Stock Plan. (Incorporated by reference to Appendix C of the Registrant s Definitive Proxy Statement on Schedule 14A, filed with the Commission on March 25, 2009.)
Exhibit 10.10	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 10.11	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 10.12	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 10.13	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 10.14	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.)
Exhibit 10.15	Salary Continuation Agreement by and between ACNB Bank and James P. Helt dated as of March 28, 2012. (Incorporated by reference to Exhibit 10.20 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Commission on March 7, 2014.)
Exhibit 10.16	ACNB Bank Variable Compensation Plan effective January 1, 2014, as amended. (Incorporated by reference to Exhibit 10.21 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Commission on March 9, 2018.)
Exhibit 10.17	Form of ACNB Bank Variable Compensation Plan Restricted Stock Agreement dated as of June 22, 2015. (Incorporated by reference to Exhibit 99.2 of the Registrant s Current Report on Form 8-K, filed with the Commission on June 25, 2015.)
Exhibit 10.18	Form of ACNB Bank Variable Compensation Plan Restricted Stock Agreement dated as of June 15, 2016. (Incorporated by reference to Exhibit 99.3 of the Registrant s Current Report on Form 8-K, filed with the Commission on June 21, 2016.)
Exhibit 10.19	First Amendment to the Amended and Restated Employment Agreement by and between ACNB Corporation, ACNB Bank and Lynda L. Glass dated as of December 27, 2016. (Incorporated by reference to Exhibit 99.2 of the Registrant s Current Report on Form 8-K, filed with the Commission on December 28, 2016.)
Exhibit 10.20	First Amendment to Employment Agreement by and between ACNB Corporation, ACNB Bank and David W. Cathell dated as of December 27, 2016. (Incorporated by reference to Exhibit 99.3 of the Registrant s Current Report on Form 8-K, filed with the Commission on December 28, 2016.)
Exhibit 10.21	Form of ACNB Bank Variable Compensation Plan Restricted Stock Agreement dated as of June 15, 2017. (Incorporated by reference to Exhibit 99.3 of the Registrant s Current Report on Form 8-K, filed with the Commission on June 21, 2017.)
Exhibit 10.22	Amended and Restated Employment Agreement between ACNB Corporation, ACNB Bank and James P. Helt dated as of August 14, 2018. (Incorporated by reference to Exhibit 10.25 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, filed with the Commission on November 2, 2018.)

Exhibit 10.23	2018 Omnibus Stock Incentive Plan. (Incorporated by reference to Exhibit A of the Registrant s Definitive Proxy Statement on Schedule 14A, filed with the Commission on March 27, 2018.)
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 31.1	Chief Executive Officer Certification of Quarterly Report on Form 10-Q.
Exhibit 31.2	Chief Financial Officer Certification of Quarterly Report on Form 10-Q.
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.

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)

Date: May 3, 2019

/s/ James P. Helt
James P. Helt
President & Chief Executive Officer

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