

ACNB CORP  
Form 10-Q  
November 03, 2017

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2017

Commission file number 1-35015

**ACNB CORPORATION**

(Exact name of Registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**23-2233457**  
(I.R.S. Employer  
Identification No.)

**16 Lincoln Square, Gettysburg, Pennsylvania**  
(Address of principal executive offices)

**17325**  
(Zip Code)

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

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**Title of each class**  
Common Stock, \$2.50 par value per share

**Name of each exchange on which registered**  
The NASDAQ Stock Market, LLC

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the Registrant's Common Stock outstanding on November 3, 2017, was 7,019,645.

## PART I - FINANCIAL INFORMATION

## ACNB CORPORATION

## ITEM 1 - FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF CONDITION (UNAUDITED)

Dollars in thousands, except per share data	September 30, 2017	September 30, 2016	December 31, 2016
<b>ASSETS</b>			
Cash and due from banks	\$ 17,882	\$ 13,705	\$ 13,796
Interest bearing deposits with banks	31,609	41,686	5,135
<b>Total Cash and Cash Equivalents</b>	<b>49,491</b>	55,391	18,931
Securities available for sale	158,392	143,940	142,990
Securities held to maturity, fair value \$47,373; \$58,566; \$55,425	47,369	57,562	55,568
Loans held for sale	1,873	1,877	1,770
Loans, net of allowance for loan losses \$14,105; \$14,488; \$14,194	1,222,265	857,535	893,716
Premises and equipment	26,590	18,224	18,153
Restricted investment in bank stocks	4,821	4,191	4,349
Investment in bank-owned life insurance	44,666	40,476	40,742
Investments in low-income housing partnerships	2,587	3,003	2,899
Goodwill	19,580	6,308	6,308
Intangible assets	2,752	774	688
Foreclosed assets held for resale	275	309	256
Other assets	26,974	19,279	19,950
<b>Total Assets</b>	<b>\$ 1,607,635</b>	\$ 1,208,869	\$ 1,206,320
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>LIABILITIES</b>			
Deposits:			
Non-interest bearing	\$ 273,853	\$ 186,035	\$ 180,593
Interest bearing	1,038,031	779,512	787,028
<b>Total Deposits</b>	<b>1,311,884</b>	965,547	967,621
Short-term borrowings	33,806	35,503	34,590
Long-term borrowings	96,850	76,500	74,250
Other liabilities	11,839	10,565	9,798
<b>Total Liabilities</b>	<b>1,454,379</b>	1,088,115	1,086,259
<b>STOCKHOLDERS EQUITY</b>			
Preferred stock, \$2.50 par value; 20,000,000 shares authorized; no shares outstanding			
Common stock, \$2.50 par value; 20,000,000 shares authorized; 7,082,245, 6,123,662 and 6,126,738 shares issued; 7,019,645, 6,061,062 and 6,064,138 shares	17,705	15,310	15,317

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outstanding

Treasury stock, at cost (62,600 shares)	(728)	(728)	(728)
Additional paid-in capital	37,671	10,849	10,941
Retained earnings	103,997	99,196	100,555
Accumulated other comprehensive loss	(5,389)	(3,873)	(6,024)
<b>Total Stockholders Equity</b>	<b>153,256</b>	120,754	120,061
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 1,607,635</b>	\$ 1,208,869	\$ 1,206,320

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

## ACNB CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Dollars in thousands, except per share data	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>INTEREST INCOME</b>				
Loans, including fees	\$ 13,990	\$ 9,150	\$ 33,484	\$ 27,054
Securities:				
Taxable	890	770	2,474	2,360
Tax-exempt	85	156	352	496
Dividends	61	53	174	159
Other	83	52	120	86
<b>Total Interest Income</b>	<b>15,109</b>	<b>10,181</b>	<b>36,604</b>	<b>30,155</b>
<b>INTEREST EXPENSE</b>				
Deposits	1,080	602	2,402	1,730
Short-term borrowings	9	10	69	38
Long-term borrowings	458	384	1,274	1,165
<b>Total Interest Expense</b>	<b>1,547</b>	<b>996</b>	<b>3,745</b>	<b>2,933</b>
<b>Net Interest Income</b>	<b>13,562</b>	<b>9,185</b>	<b>32,859</b>	<b>27,222</b>
<b>PROVISION FOR LOAN LOSSES</b>				
<b>Net Interest Income after Provision for Loan Losses</b>	<b>13,562</b>	<b>9,185</b>	<b>32,859</b>	<b>27,222</b>
<b>OTHER INCOME</b>				
Service charges on deposit accounts	870	631	2,057	1,734
Income from fiduciary activities	489	416	1,409	1,244
Earnings on investment in bank-owned life insurance	276	276	807	834
Gain on sales of premises and equipment				449
Service charges on ATM and debit card transactions	490	381	1,229	1,127
Commissions from insurance sales	1,313	1,269	4,031	3,700
Other	492	328	1,007	896
<b>Total Other Income</b>	<b>3,930</b>	<b>3,301</b>	<b>10,540</b>	<b>9,984</b>
<b>OTHER EXPENSES</b>				
Salaries and employee benefits	6,715	5,580	18,397	16,609
Net occupancy	677	481	1,710	1,553
Equipment	1,039	740	2,666	2,212
Other tax	197	201	576	591
Professional services	224	217	807	670
Supplies and postage	187	178	524	491
Marketing and corporate relations	119	123	321	391
FDIC and regulatory	170	181	449	532
Merger related expenses	4,305		4,675	
Intangible assets amortization	193	85	355	259
Foreclosed real estate expenses	35	72	51	112
Other operating	1,006	922	2,970	2,681
<b>Total Other Expenses</b>	<b>14,867</b>	<b>8,780</b>	<b>33,501</b>	<b>26,101</b>

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<b>Income before Income Taxes</b>	<b>2,625</b>	3,706	<b>9,898</b>	11,105
<b>PROVISION FOR INCOME TAXES</b>	<b>713</b>	938	<b>2,627</b>	2,808
<b>Net Income</b>	<b>\$ 1,912</b>	\$ 2,768	<b>\$ 7,271</b>	\$ 8,297
<b>PER SHARE DATA</b>				
Basic earnings	<b>\$ 0.27</b>	\$ 0.46	<b>\$ 1.14</b>	\$ 1.37
Cash dividends declared	<b>\$ 0.20</b>	\$ 0.20	<b>\$ 0.60</b>	\$ 0.60

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

## ACNB CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Dollars in thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>NET INCOME</b>	<b>\$ 1,912</b>	<b>\$ 2,768</b>	<b>\$ 7,271</b>	<b>\$ 8,297</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>SECURITIES</b>				
Unrealized gains (losses) arising during the period, net of income taxes of \$28, \$(158), \$159 and \$265, respectively	54	(308)	306	515
Reclassification adjustment for net gains included in net income, net of income taxes of \$0, \$0, \$0 and \$0, respectively (A) (C)				
<b>PENSION</b>				
Amortization of pension net loss, transition liability, and prior service cost, net of income taxes of \$60, \$59, \$178 and \$175, respectively (B) (C)	109	113	329	338
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>163</b>	<b>(195)</b>	<b>635</b>	<b>853</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 2,075</b>	<b>\$ 2,573</b>	<b>\$ 7,906</b>	<b>\$ 9,150</b>

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

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

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

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

## ACNB CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

Nine Months Ended September 30, 2017 and 2016

Dollars in thousands	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
<b>BALANCE JANUARY 1, 2016</b>	\$ 15,256	\$ (728)	\$ 10,387	\$ 94,526	\$ (4,726)	\$ 114,715
Net income				8,297		8,297
Other comprehensive income, net of taxes					853	853
Common stock shares issued (13,903 shares)	35		303			338
Restricted stock grants (7,435 shares)	19		100			119
Restricted stock compensation expense			59			59
Cash dividends declared				(3,627)		(3,627)
<b>BALANCE SEPTEMBER 30, 2016</b>	\$ 15,310	\$ (728)	\$ 10,849	\$ 99,196	\$ (3,873)	\$ 120,754
<b>BALANCE JANUARY 1, 2017</b>	\$ 15,317	\$ (728)	\$ 10,941	\$ 100,555	\$ (6,024)	\$ 120,061
Net income				7,271		7,271
Other comprehensive income, net of taxes					635	635
Common stock shares issued (949,314 shares)	2,373		26,505			28,878
Restricted stock grants (6,193 shares)	15		105			120
Restricted stock compensation expense			120			120
Cash dividends declared				(3,829)		(3,829)
<b>BALANCE SEPTEMBER 30, 2017</b>	\$ 17,705	\$ (728)	\$ 37,671	\$ 103,997	\$ (5,389)	\$ 153,256

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



## ACNB CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Dollars in thousands	Nine Months Ended September 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 7,271	\$ 8,297
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of loans originated for sale	(398)	(477)
Gain on sales of foreclosed assets held for resale, including writedowns	(36)	(28)
Gain on sale of premises and equipment		(449)
Earnings on investment in bank-owned life insurance	(807)	(834)
Restricted stock compensation expense	120	59
Depreciation and amortization	1,622	1,324
Provision for loan losses		
Net amortization of investment securities premiums	396	391
(Increase) decrease in accrued interest receivable	(637)	29
Increase (decrease) in accrued interest payable	235	(10)
Mortgage loans originated for sale	(21,344)	(29,761)
Proceeds from sales of loans originated for sale	21,639	30,196
Decrease (increase) in other assets	1,051	(887)
Increase in other liabilities	843	966
<b>Net Cash Provided by Operating Activities</b>	<b>9,955</b>	<b>8,816</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of investment securities held to maturity	8,148	13,809
Proceeds from maturities of investment securities available for sale	18,486	22,334
Purchase of investment securities available for sale	(12,144)	(39,127)
(Purchase) redemption of restricted investment in bank stocks	(136)	223
Net increase in loans	(63,636)	(19,660)
Bank acquisition, net of cash acquired	6,444	
Capital expenditures	(1,087)	(2,025)
Proceeds from sales of premises and equipment	6	1,929
Proceeds from sales of foreclosed real estate	228	637
<b>Net Cash Used in Investing Activities</b>	<b>(43,691)</b>	<b>(21,880)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in demand deposits	13,254	19,811
Net increase in time certificates of deposits and interest bearing deposits	37,677	32,756
Net (decrease) increase in short-term borrowings	(784)	301
Proceeds from long-term borrowings	24,600	9,000
Repayments on long-term borrowings	(7,000)	(9,000)
Dividends paid	(3,829)	(3,627)
Common stock issued	378	457
<b>Net Cash Provided by Financing Activities</b>	<b>64,296</b>	<b>49,698</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>30,560</b>	<b>36,634</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING</b>	<b>18,931</b>	<b>18,757</b>
<b>CASH AND CASH EQUIVALENTS ENDING</b>	<b>\$ 49,491</b>	<b>\$ 55,391</b>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 3,510	\$ 2,943
Income taxes paid	\$ 2,850	\$ 3,200
Loans transferred to foreclosed assets held for resale and other foreclosed transactions	\$	\$ 338
Transactions related to acquisition		
Increase in assets and liabilities:		
Securities	\$ (21,624)	\$
Loans	(264,913)	
Premises and equipment	(8,624)	

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Investment in bank-owned life insurance	(3,118)
Restricted investments in bank stocks	(486)
Foreclosed assets held for resale	(211)
Goodwill	(13,272)
Intangibles	(2,418)
Other assets	(7,463)
Noninterest bearing deposits	80,006
Interest bearing deposits	213,327
Trust preferred debentures	4,688
Other liabilities	1,782
Common shares issued	28,620

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

**ACNB CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and Nature of Operations**

ACNB Corporation (the Corporation or ACNB), headquartered in Gettysburg, Pennsylvania, is the financial holding company for the wholly-owned subsidiaries of ACNB Bank, Gettysburg, Pennsylvania, and Russell Insurance Group, Inc. (RIG), Westminster, Maryland. ACNB Bank serves its marketplace with banking and trust services via a network of twenty-two retail banking offices located in the four southcentral Pennsylvania counties of Adams, Cumberland, Franklin and York. There is also a loan production office situated in York County, Pennsylvania.

On July 1, 2017, ACNB completed its previously announced acquisition of New Windsor Bancorp, Inc. ( NW Bancorp ) of Taneytown, Maryland. At the effective time of the merger, NW Bancorp merged with and into a wholly-owned subsidiary of ACNB, immediately followed by the merger of New Windsor State Bank ( NWSB ) with and into ACNB Bank. ACNB Bank now operates in the Maryland market as NWSB Bank, A Division of ACNB Bank . NWSB Bank, a division of ACNB Bank, serves its marketplace with banking and investment services via a network of seven retail banking offices located in Carroll County, Maryland.

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly ACNB Corporation's financial position and the results of operations, comprehensive income, changes in stockholders' equity, and cash flows. All such adjustments are of a normal recurring nature.

The accounting policies followed by the Corporation are set forth in Note A to the Corporation's consolidated financial statements in the 2016 ACNB Corporation Annual Report on Form 10-K, filed with the SEC on March 15, 2017. It is suggested that the consolidated financial statements contained herein be read in conjunction with the consolidated financial statements and notes included in the Corporation's Annual Report on Form 10-K. The results of operations for the three and nine month periods ended September 30, 2017, are not necessarily indicative of the results to be expected for the full year.

The Corporation has evaluated events and transactions occurring subsequent to the statement of condition date of September 30, 2017, for items that should potentially be recognized or disclosed in the consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

2. **Acquisition of New Windsor Bancorp, Inc.**

On July 1, 2017, ACNB completed its previously-announced acquisition of NW Bancorp of Taneytown, Maryland. NW Bancorp was a locally owned and managed institution with seven locations in north central Maryland that complemented, enhanced and expanded ACNB's physical presence in north central Maryland. ACNB transacted the merger to enhance its competitive strategic position, potential prospective business opportunities, operations, management, prospective financial condition, future earnings and business prospects. Specifically, ACNB believes that the merger will enhance its business opportunities in Northern Maryland due to the combined company having a greater market share, market presence and the ability to offer more diverse (i.e. Trust Services) and more profitable products, as well as a broader based and geographically diversified branch system to enhance deposit collection and potentially improve funding costs. The fair value of total assets acquired as a result of the merger totaled \$319.8 million, loans totaled \$263.5 million and deposits totaled \$293.3 million. Goodwill recorded in the merger was \$13.3 million. In accordance with the terms of the Reorganization Agreement, dated November 21, 2016, as amended, NW Bancorp shareholders received, in aggregate, \$4.5 million in cash and 938,360 shares or approximately 13% of the post transaction outstanding shares of the Corporation's common stock. The transaction was valued at \$33.3 million based on the Corporation's June 30, 2017 closing price of \$30.50 as quoted on NASDAQ. The results of the combined entity's operations are included in the Corporation's Consolidated Financial Statements from the date of acquisition.

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The acquisition of NW Bancorp is being accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration paid were recorded at estimated fair values on the acquisition date. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition.

The following table summarizes the consideration paid for NW Bancorp and the fair value of assets acquired and liabilities assumed as of the acquisition date:

### Purchase Price Consideration in Common Stock

NW Bancorp shares outstanding		1,003,703
Shares paid cash consideration		150,555
Cash consideration (per NW Bancorp share)	\$	30.00
Cash portion of purchase price	\$	4,519,995
NW Bancorp shares outstanding		1,003,703
Shares paid stock consideration		853,148
Exchange ratio		1.10
Total ACNB shares issued		938,360
ACNB's share price for purposes of calculation	\$	30.50
Equity portion of purchase price	\$	28,619,980
Cost of shares owned by buyer	\$	150,000
Total consideration paid	\$	33,289,975

Allocation of Purchase Price	In thousands	
<b>Total Purchase Price</b>		\$ 33,290
<b>Fair Value of Assets Acquired</b>		
Cash and cash equivalents	10,964	
Investment securities	21,624	
Loans held for sale	1,463	
Loans	263,450	
Restricted stock	486	
Premises and equipment	8,624	
Core deposit intangible asset	2,418	
Other assets	10,792	
<b>Total assets</b>	<b>319,821</b>	
<b>Fair Value of Liabilities Assumed</b>		
Non-interest bearing deposits	80,006	
Interest bearing deposits	213,327	
Subordinated debt	4,688	
Other liabilities	1,782	
<b>Total liabilities</b>	<b>299,803</b>	
<b>Net Assets Acquired</b>		<b>20,018</b>
<b>Goodwill Recorded in Merger</b>		<b>\$ 13,272</b>

Pursuant to the accounting requirements, the Corporation assigned a fair value to the assets acquired and liabilities assumed of NW Bancorp. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.



The calculation of goodwill is subject to change for up to one year after the date of acquisition as additional information relative to the closing date estimates and uncertainties become available. Goodwill and core deposit intangibles are allocated to the banking business segment.

Fair values of the major categories of assets acquired and liabilities assumed were determined as follows:

#### Investment securities available-for-sale

The estimated fair values of the investment securities available for sale, primarily comprised of U.S. Government agency mortgage-backed securities, U.S. government agencies and municipal bonds, were determined using Level 2 inputs in the fair value hierarchy. The fair values were determined using independent pricing services. The Corporation's independent pricing service utilized matrix pricing, 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 relying on the security's relationship to other benchmark quoted prices. Management reviewed the data and assumptions used in pricing the securities. A fair value premium of \$361,000 was recorded and will be amortized over the estimated life of the investments using the interest rate method.

#### 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 life time 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 (analysis available at request of the Corporation), 2) a general credit fair value adjustment (analysis available at request of the Corporation), and 3) a specific credit fair value adjustment for purchased credit impaired loans subject to ASC 310-30 procedures. The acquired loans were recorded at fair value at the acquisition date without carryover of NWSB's previously established allowance for loan losses. The fair value of the financial assets acquired included loans receivable with a gross amortized cost basis of \$272,646,000. The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired. The credit adjustment on purchased credit impaired loans is derived in accordance with ASC 310-30 and represents the portion of the loan balances that has been deemed uncollectible based on the Corporation's expectations of future cash flows for each respective loan.

#### In thousands

Gross amortized cost basis at July 1, 2017	\$ 272,646
Interest rate fair value adjustment on pools of homogeneous loans	(731)
Credit fair value adjustment on pools of homogeneous loans	(4,501)
Credit fair value adjustment on purchased credit impaired loans	(3,964)
Fair value of acquired loans at July 1, 2017	\$ 263,450

For loans acquired without evidence of credit quality deterioration, ACNB prepared the interest rate loan fair value and credit fair value adjustments. Loans were grouped into homogeneous pools by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various internal and external data sources and reviewed by management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value discount of \$731,000.

Additionally for loans acquired without credit deterioration, a credit fair value adjustment was calculated using a two-part credit fair value analysis: 1) expected lifetime credit migration losses; and 2) estimated fair value adjustment for certain qualitative factors. The expected lifetime losses were calculated using historical losses observed at the Bank, NWSB and peer banks. ACNB also estimated an environmental factor to apply to each loan type. The environmental factor represents potential discount which may arise due to general credit and economic factors. A credit fair value discount of \$4.5 million was determined. Both the interest rate and credit fair value adjustments relate to loans acquired with evidence of credit quality deterioration will be substantially recognized as interest income on a level yield amortization method over the expected life of the loans.



The following table presents the acquired purchased credit impaired loans receivable at the Acquisition Date:

**In thousands**

Contractual principal and interest at acquisition	\$	13,439
Nonaccretable difference		(5,651)
Expected cash flows at acquisition		7,788
Accretable yield		(1,458)
Fair value of purchased impaired loans	\$	6,330

**Bank Premises**

The Corporation acquired seven branches of NWSB. The fair value of NWSB's premises, including land, buildings, and improvements, was determined based upon independent third-party appraisals performed by licensed appraisers in the market in which the premises are located. The Corporation prepared an internal analysis to compare the lease contract obligations to comparable market rental rates. The Corporation believed that the leased contract rates were in a reasonable range of market rental rates and concluded that no fair market value adjustment related to leasehold interest was necessary.

**Core Deposit Intangible**

The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate commensurate with market participants. To calculate cash flows, deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available through national brokered CD offering rates. The projected cash flows were developed using projected deposit attrition rates. The core deposit intangible will be amortized over ten years using the sum-of-years digits method.

**Time Deposits**

The fair value adjustment for time deposits represents a discount from the value of the contractual repayments of fixed-maturity deposits using prevailing market interest rates for similar-term time deposits. The time deposit discount of approximately \$847,500 is being amortized into income on a level yield amortization method over the contractual life of the deposits.

**Long-term Borrowings**

The Corporation assumed a trust preferred subordinated debt in connection with the merger. The fair value of the trust preferred subordinated debt was determined based upon an estimated fair value from an independent brokerage firm. The trust preferred capital note was valued at discount of \$312,500, which is being amortized into income on a level yield amortization method based upon the assumed market rate, and the term of the trust preferred subordinated debt instrument.

The following table presents certain pro forma information as if NWSB had been acquired on December 31, 2016. These results combine the historical results of the Corporation in the Corporation's Consolidated Statements of Income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on December 31, 2016. In particular, no adjustments have been made to eliminate the amount of NWSB's provision for loan losses that would not have been necessary had the acquired loans been recorded at fair value as of December 31, 2016. The Corporation expects to achieve further operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts below:

<b>In thousands</b>	<b>For the Year Ended December 31, 2016</b>	
Total revenues (net interest income plus noninterest income)	\$	102,891
Net Income		13,591

Acquisition-related expenses associated with the acquisition of NWSB were \$4.3 million for the three months ended September 30, 2017 and \$4.7 million for the nine months ended September 30, 2017. Such costs include legal and accounting fees, lease and contract termination expenses, system conversion, operations integration, and employee severances, which have been expensed as incurred.

### 3. Earnings Per Share and Restricted Stock Plan

The Corporation has a simple capital structure. Basic earnings per share of common stock is computed based on 6,383,149 and 6,048,216 weighted average shares of common stock outstanding for the nine months ended September 30, 2017 and 2016, respectively, and 7,004,346 and 6,057,508 for the three months ended September 30, 2017 and 2016, respectively. All outstanding unvested restricted stock awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation.

The Corporation has a restricted stock plan available to selected officers and employees of the Bank to advance the best interest of the Corporation and its shareholders. The plan provides those persons who have responsibility for its growth with additional incentive by allowing them to acquire ownership in the Corporation and, thereby, encouraging them to contribute to the success of the Corporation. Plan expense is recognized over the vesting period of the stock issued under the plan. As of September 30, 2017, 19,301 shares were issued under this plan, of which 12,693 were fully vested and the remaining 6,608 will vest over the next year. \$120,000 and \$59,000 of compensation expenses related to the grants were recognized during the nine months ended September 30, 2017 and 2016, respectively. No compensation expenses were recognized during the three months ended September 30, 2017 or 2016.

### 4. Retirement Benefits

The components of net periodic benefit expense related to the non-contributory, defined benefit pension plan for the three and nine month periods ended September 30 were as follows:

In thousands	Three Months Ended September 30,		Nine Months Ended September 30	
	2017	2016	2017	2016
Service cost	\$ 210	\$ 199	\$ 630	\$ 597
Interest cost	284	284	852	852
Expected return on plan assets	(630)	(609)	(1,890)	(1,824)
Amortization of net loss	169	172	507	513
<b>Net Periodic Benefit Expense</b>	<b>\$ 33</b>	<b>\$ 46</b>	<b>\$ 99</b>	<b>\$ 138</b>

The Corporation previously disclosed in its consolidated financial statements for the year ended December 31, 2016, that it had not yet determined the amount the Bank planned on contributing to the defined benefit plan in 2017. As of September 30, 2017, this contribution amount had still not been determined. Effective April 1, 2012, no inactive or former participant in the plan is eligible to again participate in the plan, and no employee hired after March 31, 2012, is eligible to participate in the plan. As of the last annual census, ACNB Bank had a combined 358 active, vested, terminated and retired persons in the plan.

### 5. Guarantees

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are written conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit

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is essentially the same as those that are involved in extending loan facilities to customers. The Corporation generally holds collateral and/or personal guarantees supporting these commitments. The Corporation had \$6,974,000 in standby letters of credit as of September 30, 2017. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability, as of September 30, 2017, for guarantees under standby letters of credit issued is not material.

## 6. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of taxes, are as follows:

In thousands	Unrealized Gains (Losses) on Securities	Pension Liability	Accumulated Other Comprehensive Loss
<b>BALANCE SEPTEMBER 30, 2017</b>	<b>\$ 40</b>	<b>\$ (5,429)</b>	<b>\$ (5,389)</b>
BALANCE DECEMBER 31, 2016	\$ (266)	\$ (5,758)	\$ (6,024)
BALANCE SEPTEMBER 30, 2016	\$ 1,679	\$ (5,552)	\$ (3,873)

## 7. Segment Reporting

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

Segment information for the nine month periods ended September 30, 2017 and 2016, is as follows:

In thousands	Banking	Insurance	Total
<b>2017</b>			
Net interest income and other income from external customers	\$ 39,536	\$ 3,863	\$ 43,399
Income before income taxes	9,099	799	9,898
Total assets	1,598,331	9,304	1,607,635
Capital expenditures	1,087		1,087
<b>2016</b>			
Net interest income and other income from external customers	\$ 33,871	\$ 3,335	\$ 37,206
Income before income taxes	10,424	681	11,105
Total assets	1,199,365	9,504	1,208,869
Capital expenditures	2,013	12	2,025

Segment information for the three month periods ended September 30, 2017 and 2016, is as follows:

In thousands	Banking	Insurance	Total
<b>2017</b>			
Net interest income and other income from external customers	\$ 16,321	\$ 1,171	\$ 17,492
Income before income taxes	2,424	201	2,625
Total assets	1,598,331	9,304	1,607,635
Capital expenditures	284		284

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<b>2016</b>			
Net interest income and other income from external customers	\$	11,581	\$ 905 \$ 12,486
Income before income taxes		3,485	221 3,706
Total assets		1,199,365	9,504 1,208,869
Capital expenditures		326	326

Customer lists intangible assets are amortized over 10 years on a straight line basis. Core deposit intangible assets are amortized over 10 years using the sum-of-years digits method. 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 NW acquisition is not deductible for federal income tax purposes.

8. **Securities**

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

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses on debt securities, management considers (1) whether management intends to sell the security, or (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) if management does not expect to recover the entire amortized cost basis. In assessing potential other-than-temporary impairment for equity securities, consideration is given to management's intention and ability to hold the securities until recovery of unrealized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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Amortized cost and fair value of securities at September 30, 2017, and December 31, 2016, were as follows:

In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>SECURITIES AVAILABLE FOR SALE</b>				
<b>SEPTEMBER 30, 2017</b>				
U.S. Government and agencies	\$ 99,999	\$ 37	\$ 1,022	\$ 99,014
Mortgage-backed securities, residential	36,673	705	27	37,351
State and municipal	14,967	160	11	15,116
Corporate bonds	5,000	112		5,112
CRA mutual fund	1,044		2	1,042
Stock in other banks	647	110		757
	\$ 158,330	\$ 1,124	\$ 1,062	\$ 158,392
<b>DECEMBER 31, 2016</b>				
U.S. Government and agencies	\$ 81,065	\$ 43	\$ 1,529	\$ 79,579
Mortgage-backed securities, residential	31,272	782	81	31,973
State and municipal	24,514	240	94	24,660
Corporate bonds	5,000	62		5,062
CRA mutual fund	1,044		9	1,035
Stock in other banks	498	183		681
	\$ 143,393	\$ 1,310	\$ 1,713	\$ 142,990
<b>SECURITIES HELD TO MATURITY</b>				
<b>SEPTEMBER 30, 2017</b>				
U.S. Government and agencies	\$ 20,004	\$ 25	\$ 54	\$ 19,975
Mortgage-backed securities, residential	27,365	156	123	27,398
	\$ 47,369	\$ 181	\$ 177	\$ 47,373
<b>DECEMBER 31, 2016</b>				
U.S. Government and agencies	\$ 23,017	\$ 26	\$ 54	\$ 22,989
Mortgage-backed securities, residential	32,551	210	325	32,436
	\$ 55,568	\$ 236	\$ 379	\$ 55,425



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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 September 30, 2017, and December 31, 2016:

In thousands	Less than 12 Months		12 Months or More		Fair Value	Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		Fair Value	Unrealized Losses
<b>SECURITIES AVAILABLE FOR SALE</b>							
<b>SEPTEMBER 30, 2017</b>							
U.S. Government and agencies	\$ 65,649	\$ 629	\$ 15,756	\$ 393	\$ 81,405	\$ 1,022	
Mortgage-backed securities, residential	6,783	27			6,783	27	
State and municipal	1,441	7	691	4	2,132	11	
CRA Mutual Fund	1,042	2			1,042	2	
	\$ 74,915	\$ 665	\$ 16,447	\$ 397	\$ 91,362	\$ 1,062	
<b>DECEMBER 31, 2016</b>							
U.S. Government and agencies	\$ 71,454	\$ 1,529			\$ 71,454	\$ 1,529	
Mortgage-backed securities, residential	8,966	81			8,966	81	
State and municipal	4,933	94			4,933	94	
CRA Mutual Fund	1,035	9			1,035	9	
	\$ 86,388	\$ 1,713			\$ 86,388	\$ 1,713	
<b>SECURITIES HELD TO MATURITY</b>							
<b>SEPTEMBER 30, 2017</b>							
U.S. Government and agencies	\$ 12,948	\$ 52	\$ 1,998	\$ 2	\$ 14,946	\$ 54	
Mortgage-backed securities, residential	10,496	114	1,168	9	11,664	123	
	\$ 23,444	\$ 166	\$ 3,166	\$ 11	\$ 26,610	\$ 177	
<b>DECEMBER 31, 2016</b>							
U.S. Government and agencies	\$ 12,946	\$ 54			\$ 12,946	\$ 54	
Mortgage-backed securities, residential	12,956	325			12,956	325	
	\$ 25,902	\$ 379			\$ 25,902	\$ 379	

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 September 30, 2017, fifty-six available for sale U.S. Government and agency securities had unrealized losses that individually did not exceed 4% of amortized cost. Nine 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 September 30, 2017, eight available for sale residential mortgage-backed securities had unrealized losses that individually did not exceed 1% of amortized cost. These securities have not been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.



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At September 30, 2017, nine available for sale state and municipal securities had unrealized losses that individually did not exceed 2% of amortized cost. Three of these securities have been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

At September 30, 2017, the CRA Mutual Fund had an unrealized loss that did not exceed 1% of amortized cost. This security has not been in a continuous loss position for 12 months or more. This unrealized loss relates principally to changes in interest rates subsequent to the acquisition of the specific security.

At September 30, 2017, eight held to maturity U.S. Government and agency securities had unrealized losses that individually did not exceed 1% of amortized cost. One of these securities has 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 September 30, 2017, thirteen held to maturity residential mortgage-backed securities had unrealized losses that individually did not exceed 2% of amortized cost. One of these securities has 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 September 30, 2017, 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 September 30, 2017, 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

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1 year or less	\$	6,576	\$	6,589	\$	8,004	\$	7,998
Over 1 year through 5 years		97,681		96,972		12,000		11,977
Over 5 years through 10 years		15,709		15,681				
Over 10 years								
Mortgage-backed securities, residential		36,673		37,351		27,365		27,398
CRA mutual fund		1,044		1,042				
Stock in other banks		647		757				
	\$	158,330	\$	158,392	\$	47,369	\$	47,373

The Corporation did not sell any securities available for sale during the three and nine months ended September 30, 2017 and 2016.

At September 30, 2017, and December 31, 2016, securities with a carrying value of \$177,259,000 and \$134,763,000, respectively, were pledged as collateral as required by law on public and trust deposits, repurchase agreements, and for other purposes.

## 9. **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.

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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.

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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. Management believes that the Corporation's market area is not as volatile as other areas throughout the United States, therefore valuations are ordered at least every 18 months, or more frequently if management believes that there is an indication that the fair value has declined.



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

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

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

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

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

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

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

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 present a moderate level of 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 life time 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 (analysis available at request of the Corporation), 2) a general credit fair value adjustment (analysis available at request of the Corporation), 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.

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Upon acquisition, in accordance with Generally Accepted Accounting Principles, 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.

Any acquired loans that were not individually in the scope of ASC 310-30 because they didn't 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, we 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 will result in a credit related non-accretable yield amount. The aggregate expected cash flows less the acquisition date fair value will result 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.

Over the life of the acquired ASC 310-30 loan, we continue 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.

For loans acquired without evidence of credit quality deterioration, ACNB prepared the interest rate loan fair value and credit fair value adjustments. Loans were grouped into homogeneous pools by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various internal and external data sources and reviewed by management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value discount of \$731,000.

Additionally, for loans acquired without credit deterioration, a credit fair value adjustment was calculated using a two-part credit fair value analysis: 1) expected lifetime credit migration losses; and 2) estimated fair value adjustment for certain qualitative factors. The expected lifetime losses were calculated using historical losses observed at the Bank, NWSB and peer banks. ACNB also estimated an environmental factor to apply to each loan type. The environmental factor represents potential discount which may arise due to general credit and economic factors. A credit fair value discount of \$4.5 million was determined. Both the interest rate and credit fair value adjustments relate to loans acquired with evidence of credit quality deterioration will be substantially recognized as interest income on a level yield amortization method over the expected life of the loans.

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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 September 30, 2017, and December 31, 2016:

In thousands	Pass	Special Mention	Substandard	Doubtful	Total
<b>SEPTEMBER 30, 2017</b>					
<b>Originated Loans</b>					
Commercial and industrial	\$ 157,249	\$ 3,348	\$ 2,060	\$	\$ 162,657
Commercial real estate	312,432	19,134	9,355		340,921
Commercial real estate construction	31,042	1,009	250		32,301
Residential mortgage	352,238	3,895	544		356,677
Home equity lines of credit	77,486	352	90		77,928
Consumer	14,413				14,413
<b>Total Originated Loans</b>	<b>944,860</b>	<b>27,738</b>	<b>12,299</b>		<b>984,897</b>
<b>Acquired Loans</b>					
Commercial and industrial	6,123	177	80		6,380
Commercial real estate	125,703	13,824	3,225		142,752
Commercial real estate construction	7,085	393			7,478
Residential mortgage	58,927	2,932	3,196		65,055
Home equity lines of credit	26,726	88	371		27,185
Consumer	2,263	358	2		2,623
<b>Total Acquired Loans</b>	<b>226,827</b>	<b>17,772</b>	<b>6,874</b>		<b>251,473</b>
<b>Total Loans</b>					
Commercial and industrial	163,372	3,525	2,140		169,037
Commercial real estate	438,135	32,958	12,580		483,673
Commercial real estate construction	38,127	1,402	250		39,779
Residential mortgage	411,165	6,827	3,740		421,732
Home equity lines of credit	104,212	440	461		105,113
Consumer	16,676	358	2		17,036
<b>Total Loans</b>	<b>\$ 1,171,687</b>	<b>\$ 45,510</b>	<b>\$ 19,173</b>	<b>\$</b>	<b>\$ 1,236,370</b>
<b>DECEMBER 31, 2016</b>					
Commercial and industrial	\$ 134,088	\$ 2,355	\$ 3,901	\$	\$ 140,344
Commercial real estate	291,762	17,376	9,842		318,980
Commercial real estate construction	13,606	1,202	463		15,271
Residential mortgage	344,048	3,617	874		348,539
Home equity lines of credit	69,190	756	126		70,072
Consumer	14,704				14,704
	\$ 867,398	\$ 25,306	\$ 15,206	\$	\$ 907,910



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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	Nine Months Ended September 30, 2017	
Balance at beginning of period	\$	
Acquisitions of impaired loans		1,458
Reclassification from non-accretable differences		
Accretion		(111)
Balance at end of period	\$	1,347

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 September 30, 2017, and December 31, 2016:

In thousands	Impaired Loans with Allowance Unpaid			Impaired Loans with No Allowance Unpaid		
	Recorded Investment	Principal Balance	Related Allowance	Recorded Investment	Principal Balance	
<b>SEPTEMBER 30, 2017</b>						
Commercial and industrial	\$ 1,353	\$ 1,353	\$ 698	\$ 390	\$ 390	
Commercial real estate	832	832	117	7,581	7,581	
Residential mortgage	377	377	377	101	101	
	\$ 2,562	\$ 2,562	\$ 1,192	\$ 8,072	\$ 8,072	
<b>DECEMBER 31, 2016</b>						
Commercial and industrial	\$ 948	\$ 948	\$ 599	\$ 1,178	\$ 1,178	
Commercial real estate				8,764	8,965	
Commercial real estate construction				300	300	
Residential mortgage	376	376	333	379	379	
	\$ 1,324	\$ 1,324	\$ 932	\$ 10,621	\$ 10,822	

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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 September 30, 2017 and 2016:

In thousands	Impaired Loans with Allowance		Impaired Loans with No Allowance	
	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income
<b>SEPTEMBER 30, 2017</b>				
Commercial and industrial	\$ 1,360	\$	\$ 734	\$
Commercial real estate	832		7,626	80
Commercial real estate construction				
Residential mortgage	378		101	
	\$ 2,570	\$	\$ 8,461	\$ 80
<b>SEPTEMBER 30, 2016</b>				
Commercial and industrial	\$	\$	1,361	3
Commercial real estate			8,156	104
Commercial real estate construction			300	
Residential mortgage	374		414	4
	\$ 374	\$	\$ 10,231	\$ 111

The following table summarizes information in regards to the average of impaired loans and related interest income by loan portfolio class for the nine months ended September 30, 2017 and 2016:

In thousands	Impaired Loans with Allowance		Impaired Loans with No Allowance	
	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income
<b>SEPTEMBER 30, 2017</b>				
Commercial and industrial	\$ 1,152	\$	\$ 934	\$
Commercial real estate	416		8,155	293
Commercial real estate construction			75	25
Residential mortgage	377		238	15
	\$ 1,945	\$	\$ 9,402	\$ 333
<b>SEPTEMBER 30, 2016</b>				
Commercial and industrial	\$	\$	1,400	3
Commercial real estate			8,280	327
Commercial real estate construction			337	
Residential mortgage	187		435	13
	\$ 187	\$	\$ 10,452	\$ 343

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

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The following table presents nonaccrual loans by loan portfolio class as of September 30, 2017, and December 31, 2016, the table below excludes \$6.9 million in purchase credit impaired loans, net of unamortized fair value adjustments:

In thousands	September 30, 2017	December 31, 2016
Commercial and industrial	\$ 1,743	\$ 2,126
Commercial real estate	4,474	1,593
Commercial real estate construction		300
Residential mortgage	478	483
	\$ 6,695	\$ 4,502

The following table summarizes information relative to troubled debt restructurings by loan portfolio class as of September 30, 2017, and December 31, 2016:

In thousands	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment at Period End
<b>SEPTEMBER 30, 2017</b>			
Nonaccruing troubled debt restructurings:			
Commercial real estate	\$ 4,015	\$ 4,073	\$ 3,434
Total nonaccruing troubled debt restructurings	4,015	4,073	3,434
Accruing troubled debt restructurings:			
Commercial real estate	4,577	4,577	3,939
Total accruing troubled debt restructurings	4,577	4,577	3,939
<b>Total Troubled Debt Restructurings</b>	<b>\$ 8,592</b>	<b>\$ 8,650</b>	<b>7,373</b>
<b>DECEMBER 31, 2016</b>			
Nonaccruing troubled debt restructurings:			
Commercial real estate	\$ 648	\$ 648	\$ 377
Total nonaccruing troubled debt restructurings	648	648	377
Accruing troubled debt restructurings:			
Commercial real estate	7,944	8,002	7,171
Residential mortgage	336	336	272
Total accruing troubled debt restructurings	8,280	8,338	7,443
<b>Total Troubled Debt Restructurings</b>	<b>\$ 8,928</b>	<b>\$ 8,986</b>	<b>7,820</b>

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. As of September 30, 2017 and 2016, there were no defaulted troubled debt restructured loans, however two borrowers advised that further payments were unlikely, therefore they were moved to nonaccrual status in the second quarter of 2017. There were no charge-offs or specific allocation on any of the troubled debt restructured loans for the three and nine months ended September 30, 2017 and 2016. One troubled debt restructured loan paid off during 2017 in the amount of \$283,000 and one paid off during 2016 in the amount of \$74,000. All other troubled debt restructured loans were current as of September 30, 2017, with respect to their associated forbearance agreement, except for one loan which has had periodic late payments. As of September 30, 2017, only two of the loans classified as troubled debt restructured loans have active forbearance agreements. Of those, one forbearance agreement was negotiated during 2013 and the other forbearance agreement was negotiated during 2016. All other forbearance agreements have expired or the loans have paid off.

There were no loans whose terms have been modified resulting in troubled debt restructurings during the three and nine months ended September 30, 2017 and 2016. Two properties were added to nonaccrual in the second quarter of 2017. Both loans are current with their modified terms and are supported by adequate collateral.

Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at September 30, 2017 and December 31, 2016, totaled \$1,109,000 and \$471,000, respectively.

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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 September 30, 2017, and December 31, 2016:

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
<b>SEPTEMBER 30, 2017</b>							
<b>Originated Loans</b>							
Commercial and industrial	\$ 75	\$ 1	\$ 1,749	\$ 1,825	\$ 160,832	\$ 162,657	\$ 6
Commercial real estate			1,313	1,313	339,608	340,921	
Commercial real estate construction		332		332	31,969	32,301	
Residential mortgage	397	363	1,977	2,737	353,940	356,677	1,499
Home equity lines of credit	105	50	96	251	77,677	77,928	96
Consumer	65	3		68	14,345	14,413	
<b>Total originated loans</b>	<b>642</b>	<b>749</b>	<b>5,135</b>	<b>6,526</b>	<b>978,371</b>	<b>984,897</b>	<b>1,601</b>
<b>Acquired Loans</b>							
Commercial and industrial		1		1	6,379	6,380	
Commercial real estate					142,752	142,752	
Commercial real estate construction	76			76	7,402	7,478	
Residential mortgage	298	115	25	438	64,617	65,055	25
Home equity lines of credit	605			605	26,580	27,185	
Consumer	12			12	2,611	2,623	
<b>Total acquired loans</b>	<b>991</b>	<b>116</b>	<b>25</b>	<b>1,132</b>	<b>250,341</b>	<b>251,473</b>	<b>25</b>
<b>Total Loans</b>							
Commercial and industrial	75	2	1,749	1,826	167,211	169,037	6
Commercial real estate			1,313	1,313	482,360	483,673	
Commercial real estate construction	76	332		408	39,371	39,779	
Residential mortgage	695	478	2,002	3,175	418,557	421,732	1,524
Home equity lines of credit	710	50	96	856	104,257	105,113	96
Consumer	77	3		80	16,956	17,036	
<b>Total Loans</b>	<b>\$ 1,633</b>	<b>\$ 865</b>	<b>\$ 5,160</b>	<b>\$ 7,658</b>	<b>\$ 1,228,712</b>	<b>\$ 1,236,370</b>	<b>\$ 1,626</b>
<b>DECEMBER 31, 2016</b>							
Commercial and industrial	\$ 26	\$ 1	\$ 1,178	\$ 1,205	\$ 139,139	\$ 140,344	\$
Commercial real estate	325	674		999	317,981	318,980	
Commercial real estate construction			300	300	14,971	15,271	
Residential mortgage	2,866	657	1,413	4,936	343,603	348,539	937
Home equity lines of credit	310	56	408	774	69,298	70,072	408
Consumer	31	47		78	14,626	14,704	
<b>Total loans</b>	<b>\$ 3,558</b>	<b>\$ 1,435</b>	<b>\$ 3,299</b>	<b>\$ 8,292</b>	<b>\$ 899,618</b>	<b>\$ 907,910</b>	<b>\$ 1,345</b>

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

<b>AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2017</b>																
Beginning balance - July 1, 2017	\$	3,246	\$	5,210	\$	135	\$	3,368	\$	607	\$	815	\$	767	\$	14,148
Recoveries		8		40		10						1				59
Ending balance - September 30, 2017	\$	3,267	\$	5,405	\$	144	\$	3,262	\$	627	\$	810	\$	590	\$	14,105
Beginning balance - January 1, 2017	\$	3,055	\$	4,968	\$	147	\$	3,478	\$	648	\$	923	\$	975	\$	14,194
Recoveries		17		61		40		52				13				183
Ending balance - September 30, 2017	\$	3,267	\$	5,405	\$	144	\$	3,262	\$	627	\$	810	\$	590	\$	14,105
Ending balance: collectively evaluated for impairment	\$	2,569	\$	5,288	\$	144	\$	2,885	\$	627	\$	810	\$	590	\$	12,913
<b>Loans Receivable</b>																
Ending balance: individually evaluated for impairment	\$	1,743	\$	8,413	\$		\$	478	\$		\$		\$		\$	10,634
<b>Allowance for Loan Losses</b>																
Charge-offs		(131)						(6)				(28)				(165)
Provisions		(80)		(60)		11		(46)		2		(11)		184		
Charge-offs		(221)				(135)		(45)		(9)		(50)				(460)
Provisions		20		157		36		(51)		(1)		(127)		(34)		
Ending balance: individually evaluated for impairment	\$		\$		\$		\$	167	\$		\$		\$		\$	167

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Ending balance	\$	122,926	\$	309,161	\$	13,243	\$	346,422	\$	65,689	\$	14,582	\$	872,023
Ending balance: collectively evaluated for impairment														
Ending balance: collectively evaluated for impairment	\$	121,677	\$	301,119	\$	12,943	\$	345,663	\$	65,689	\$	14,582	\$	861,673

**AS OF DECEMBER 31, 2016**

Ending balance	\$	3,055	\$	4,968	\$	147	\$	3,478	\$	648	\$	923	\$	975	\$	14,194
Ending balance: collectively evaluated for impairment	\$	2,456	\$	4,968	\$	147	\$	3,145	\$	648	\$	923	\$	975	\$	13,262
<b>Loans Receivable</b>																
Ending balance: individually evaluated for impairment	\$	2,126	\$	8,764	\$	300	\$	755	\$		\$		\$		\$	11,945

**10. 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).

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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 September 30, 2017, and December 31, 2016, are as follows:

In thousands	Basis	September 30, 2017			
		Total	Level 1	Level 2	Level 3
U.S. Government and agencies		\$ 99,014	\$	\$ 99,014	\$
Mortgage-backed securities, residential		37,351		37,351	
State and municipal		15,116		15,116	
Corporate bonds		5,112		5,112	
CRA mutual fund		1,042	1,042		
Stock in other banks		757	757		
Total securities available for sale	Recurring	\$ 158,392	\$ 1,799	\$ 156,593	\$
Impaired loans	Nonrecurring	\$ 5,462	\$	\$	\$ 5,462

In thousands	Basis	December 31, 2016			
		Total	Level 1	Level 2	Level 3
U.S. Government and agencies		\$ 79,579	\$	\$ 79,579	\$
Mortgage-backed securities, residential		31,973		31,973	
State and municipal		24,660		24,660	
Corporate bonds		5,062		5,062	
CRA mutual fund		1,035	1,035		
Stock in other banks		681	681		
Total securities available for sale	Recurring	\$ 142,990	\$ 1,716	\$ 141,274	\$
Impaired loans	Nonrecurring	\$ 4,406	\$	\$	\$ 4,406

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:

Dollars in thousands	Fair Value Estimate	Quantitative Information about Level 3 Fair Value Measurements			Weighted Average
		Valuation Technique	Unobservable Input	Range	
<b>September 30, 2017</b>					
Impaired loans	\$ 5,462	Appraisal of collateral (a)	Appraisal adjustments (b)	(10) - (50)%	(34)%
<b>December 31, 2016</b>					
Impaired loans	\$ 4,406	Appraisal of collateral (a)	Appraisal adjustments (b)	(10) - (50)%	(39)%

(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.

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(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 methods and assumptions were used to estimate the fair values of certain Corporation financial instruments at September 30, 2017, and December 31, 2016:

**Cash and Cash Equivalents (Carried at Cost)**

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

**Securities**

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

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

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

**Loans (Carried at Cost)**

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

**Impaired Loans (Generally Carried at Fair Value)**

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

**Foreclosed Assets Held for Resale**

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

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

**Restricted Investment in Bank Stock (Carried at Cost)**

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

**Accrued Interest Receivable and Payable (Carried at Cost)**

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

**Deposits (Carried at Cost)**

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

**Short-Term Borrowings (Carried at Cost)**

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

**Long-Term Borrowings (Carried at Cost)**

The fair values of long-term borrowings are estimated using discounted cash flow analysis, based on quoted prices for new borrowings with similar credit risk characteristics, terms, and remaining maturity. The prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party. The fair value of the trust preferred subordinated debt, included in long-term borrowings, was determined based upon an estimated fair value from an independent brokerage firm.

**Off-Balance Sheet Credit-Related Instruments**

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

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Corporation's financial instruments as of September 30, 2017, and December 31, 2016:

September 30, 2017

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In thousands	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash and due from banks	\$ 17,882	\$ 17,882	\$ 8,131	\$ 9,751	\$
Interest-bearing deposits in banks	31,609	31,609	31,609		
Investment securities available for sale	158,392	158,392	1,799	156,593	
Investment securities held to maturity	47,369	47,373		47,373	
Loans held for sale	1,873	1,873		1,873	
Loans, less allowance for loan losses	1,222,265	1,205,807			1,205,807
Accrued interest receivable	3,795	3,795		3,795	
Restricted investment in bank stocks	4,821	4,821		4,821	
<b>Financial liabilities:</b>					
Deposits	1,311,884	1,307,677		1,307,677	
Short-term borrowings	33,806	33,806		33,806	
Long-term borrowings	96,850	97,129		97,129	
Accrued interest payable	1,072	1,072		1,072	
<b>Off-balance sheet financial instruments</b>					

In thousands	December 31, 2016				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash and due from banks	\$ 13,796	\$ 13,796	\$ 6,921	\$ 6,875	\$
Interest-bearing deposits in banks	5,135	5,135	5,135		
Investment securities available for sale	142,990	142,990	1,716	141,274	
Investment securities held to maturity	55,568	55,425		55,425	
Loans held for sale	1,770	1,770		1,770	
Loans, less allowance for loan losses	893,176	888,169			888,169
Accrued interest receivable	3,158	3,158		3,158	
Restricted investment in bank stocks	4,349	4,349		4,349	
<b>Financial liabilities:</b>					
Deposits	967,621	967,236		967,236	
Short-term borrowings	34,590	34,590		34,590	
Long-term borrowings	74,250	75,029		75,029	
Accrued interest payable	837	837		837	
<b>Off-balance sheet financial instruments</b>					

#### 11. 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.



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The following table presents the short-term borrowings subject to an enforceable master netting arrangement or repurchase agreement as of September 30, 2017, and December 31, 2016:

In thousands	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Condition	Net Amounts of Liabilities Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition		
				Financial Instruments	Cash Collateral Pledged	Net Amount
<b>September 30, 2017</b>						
Repurchase agreements						
Commercial customers and government entities	(a) \$ 33,806	\$	\$ 33,806	\$ (33,806)	\$	\$
<b>December 31, 2016</b>						
Repurchase agreements						
Commercial customers and government entities	(a) \$ 34,590	\$	\$ 34,590	\$ (34,590)	\$	\$

(a) As of September 30, 2017, and December 31, 2016, the fair value of securities pledged in connection with repurchase agreements was \$41,149,000 and \$41,406,000, respectively.

The following table presents the remaining contractual maturity of the master netting arrangement or repurchase agreements as of September 30, 2017:

In thousands	Remaining Contractual Maturity of the Agreements				Total
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater than 90 Days	
Repurchase agreements and repurchase-to-maturity transactions					
U.S. Treasury and agency securities	\$ 33,806	\$	\$	\$	\$ 33,806
Total	\$ 33,806	\$	\$	\$	\$ 33,806

## 12. Borrowings

The Corporation had long-term debt outstanding as follows:

In thousands	September 30, 2017	December 31, 2016
FHLB Advances	\$ 87,250	\$ 74,250
Loan Payable to local bank	4,600	
Trust preferred subordinated debt	5,000	

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\$ 96,850 \$ 74,250

The FHLB advances are collateralized by the assets defined in security agreement and FHLB capital stock. FHLB advances have maturity dates from 2017 to 2021 with a weighted average rate of 1.80%.

The loan payable to a local bank has a one-year draw period in which monthly interest-only payments are due on the outstanding principal amount. Commencing June 2018, terms include 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 borrower may prepay the principal balance of this note at any time without penalty.

The trust preferred subordinated debt is comprised of debt securities issued by NW Bancorp in June 2005 and assumed by ACNB Corporation through the acquisition. NW Bancorp issued \$5,000,000 of 6.39% fixed rate capital securities to institutional investors in a private pooled transaction. The proceeds were transferred to NW Bancorp 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.

### 13. 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 thirteen years.

This acquisition of NW Bancorp resulted in goodwill of approximately \$13.3 million and generated \$2.4 million in core deposit intangibles.

Combining goodwill resulting from this transaction with existing goodwill from the 2005 RIG purchase of \$6,308,000, total goodwill included in the Corporation's consolidated statement of condition is \$19,580,000. Goodwill is not deductible for federal income tax purposes. 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 NW Bancorp core deposit intangibles) are as follows:

In thousands	Gross carrying amount	Accumulated amortization
RIG amortized intangible assets	\$ 6,667	\$ 6,223
NW Bancorp core deposit intangibles	2,418	110

The RIG intangible assets are being amortized over 10 years on a straight line basis. The NW Bancorp 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. We perform 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.

### 14. New Accounting Pronouncements

#### ASU 2014-09, 2015-14, 2016-08, 2016-12, 2016-20, and 2017-10

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

The amendments in this Update establish a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The amendments in this Update were originally effective for public entities for annual periods beginning after December 15, 2016, including interim periods therein. Three basic transition methods are available—full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is prohibited under U.S. GAAP.

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In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*.

ASU 2015-14 defers the effective date of the new revenue recognition standard by one year. As such, it now takes effect for public entities in fiscal years beginning after December 15, 2017. All other entities have an additional year. However, early adoption is permitted for any entity that chooses to adopt the new standard as of the original effective date.

Public business entities will adopt the standard for annual reporting periods beginning after December 15, 2017, including interim periods within that year. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*.

ASU 2016-08 updates the new revenue standard by clarifying the principal versus agent implementation guidance, but does not change the core principle of the new standard. The updates to the principal versus agent guidance:

- require an entity to determine whether it is a principal or an agent for each distinct good or service (or a distinct bundle of goods or services) to be provided to the customer;
- illustrate how an entity that is a principal might apply the control principle to goods, services, or rights to services, when another party is involved in providing goods or services to a customer;
- clarify that the purpose of certain specific control indicators is to support or assist in the assessment of whether an entity controls a good or service before it is transferred to the customer, provide more specific guidance on how the indicators should be considered, and clarify that their relevance will vary depending on the facts and circumstances; and
- revise existing examples and add two new ones to more clearly depict how the guidance should be applied.

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*.

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The amendments do not alter the core principle of the new revenue standard, but make certain targeted changes to clarify the following:

- *Assessing collectibility* - The amendments add a substantially all threshold to the collectibility criterion, and also clarify that the objective of the collectibility assessment is to determine whether the contract is valid and represents a substantive transaction based on whether a customer has the ability and intent to pay for the goods or services that will be transferred to the customer, as opposed to all of the goods or services promised in the contract. The ASU also clarifies how an entity may recognize as revenue consideration received in circumstances where a contract does not meet the criteria required at inception to apply the recognition guidance within the revenue standard.
- *Presenting sales taxes and other similar taxes collected from customers* - The amendments provide an accounting policy election whereby an entity may exclude from the measurement of transaction price all taxes assessed by a taxing authority related to the specific transaction and which are collected from the customer. Such amounts would be presented net under this option.
- *Noncash consideration* - The amendments clarify that the fair value of noncash consideration is measured at contract inception, and specify how to account for subsequent changes in the fair value of noncash consideration.
- *Contract modifications at transition* - The amendments provide a new practical expedient whereby an entity electing either the full or modified retrospective method of transition is permitted to reflect the aggregate effect of all prior period modifications (using hindsight) when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to satisfied and unsatisfied obligations.

- *Completed contracts at transition* - The amendments include certain practical expedients in transition related to completed contracts. The amendments also clarify the definition of a completed contract.
- *Disclosing the accounting change in the period of adoption* - ASU 2016-12 provides an exception to the requirement in Topic 250 to disclose the effect on the current period of retrospectively adopting a new accounting standard.

In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which amends the new revenue standard. The amendments do not alter the core principle of the standard, but clarify certain narrow aspects of the standard including contract cost accounting, disclosures, illustrative examples, and other matters.