UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year-ended December 31, 2021

OR

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

For the transition period from to

Commission file number 1-35015

ACNB CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	☐	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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant at June 30, 2021, was approximately $233,741,282.

The number of shares of the registrant's common stock outstanding on March 14, 2022, was 8,679,206.

Documents Incorporated by Reference

Portions of the registrant's 2022 definitive Proxy Statement are incorporated by reference into Part III of this report.

ACNB CORPORATION

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PART I

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Form 10-K may contain forward-looking statements. Examples of forward-looking statements include, but are not limited to, (a) projections or statements regarding future earnings, expenses, net interest income, other income, earnings or loss per share, asset mix and quality, growth prospects, capital structure, and other financial terms, (b) statements of plans and objectives of Management or the Board of Directors, and (c) statements of assumptions, such as economic conditions in the Corporation's market areas. Such forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "intends", "will", "should", "anticipates", or the negative of any of the foregoing or other variations thereon or comparable terminology, or by discussion of strategy. Forward-looking statements are subject to certain risks and uncertainties such as local economic conditions, competitive factors, and regulatory limitations. Actual results may differ materially from those projected in the forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following: effects of governmental and fiscal policies, as well as legislative and regulatory changes; effects of new laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) and their application with which the Corporation and its subsidiaries must comply; impacts of the capital and liquidity requirements of the Basel III standards; effects of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters; ineffectiveness of the business strategy due to changes in current or future market conditions; future actions or inactions of the United States government, including the effects of short- and long-term federal budget and tax negotiations and a failure to increase the government debt limit or a prolonged shutdown of the federal government; effects of economic conditions particularly with regard to the negative impact of severe, wide-ranging and continuing disruptions caused by the spread of Coronavirus Disease 2019 (COVID-19) and any other pandemic, epidemic or health-related crisis and the responses thereto on the operations of the Corporation and current customers, specifically the effect of the economy on loan customers' ability to repay loans; effects of competition, and of changes in laws and regulations on competition, including industry consolidation and development of competing financial products and services; inflation, securities market and monetary fluctuations; risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities, and interest rate protection agreements, as well as interest rate risks; difficulties in acquisitions and integrating and operating acquired business operations, including information technology difficulties; challenges in establishing and maintaining operations in new markets; effects of technology changes; effect of general economic conditions and more specifically in the Corporation's market areas; failure of assumptions underlying the establishment of reserves for loan losses and estimations of values of collateral and various financial assets and liabilities; acts of war or terrorism; disruption of credit and equity markets; ability to manage current levels of impaired assets; loss of certain key officers; ability to maintain the value and image of the Corporation's brand and protect the Corporation's intellectual property rights; continued relationships with major customers; and, potential impacts to the Corporation from continually evolving cybersecurity and other technological risks and attacks, including additional costs, reputational damage, regulatory penalties, and financial losses. We caution readers not to place undue reliance on these forward-looking statements. They only reflect Management's analysis as of this date. The Corporation does not revise or update these forward-looking statements to reflect events or changed circumstances. Please carefully review the risk factors described in other documents the Corporation files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

ITEM 1—BUSINESS

ACNB CORPORATION

ACNB Corporation (the Corporation or ACNB), headquartered in Gettysburg, Pennsylvania, is the financial holding company for the wholly-owned subsidiaries of ACNB Bank (Bank), Gettysburg, Pennsylvania, and ACNB Insurance Services, Inc., formerly Russell Insurance Group, Inc., Westminster, Maryland. Originally founded in 1857, ACNB Bank serves its marketplace with banking and wealth management services, including trust and retail brokerage, via a network of 20 community banking offices, located in the four southcentral Pennsylvania counties of Adams, Cumberland, Franklin and York, as well as loan offices in Lancaster and York, Pennsylvania, and Hunt Valley, Maryland. As divisions of ACNB Bank operating in Maryland, FCB Bank (FCB) and NWSB Bank (NWSB) serve the local marketplace with a network of five and six community banking offices located in Frederick County and Carroll County, Maryland. ACNB Insurance Services, Inc., the Corporation's insurance subsidiary, is a full-service agency with licenses in 44 states. The agency offers a broad range of property, casualty, health, life and disability insurance serving personal and commercial clients through office locations in Westminster, Germantown and Jarrettsville, Maryland, and Gettysburg, Pennsylvania.

ACNB Corporation was formed in 1982, then became the bank holding company for Adams County National Bank (now ACNB Bank) in 1983. The Corporation purchased Russell Insurance Group, Inc. (now ACNB Insurance Services, Inc.), its insurance subsidiary, in 2005. On July 1, 2017, ACNB Corporation completed the acquisition of New Windsor Bancorp, Inc. and its wholly-owned subsidiary, New Windsor State Bank, a Maryland state-chartered, FDIC-insured community bank headquartered in Taneytown, Maryland. On January 11, 2020, ACNB completed its acquisition of Frederick County Bancorp, Inc. (FCBI) and its wholly-owned subsidiary, Frederick County Bank, a Maryland state-chartered, FDIC-insured community bank headquartered in Frederick, Maryland.

ACNB's major source of unconsolidated operating funds is dividends that it receives from its subsidiaries. ACNB's unconsolidated expenses consist principally of losses from low-income housing investments. Dividends that ACNB pays to stockholders consist of dividends declared and paid to ACNB by the subsidiary bank, ACNB Bank.

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

The common stock of ACNB is listed on The NASDAQ Capital Market under the symbol ACNB.

Frederick County Bancorp, Inc. Acquisition

On January 11, 2020, ACNB completed the acquisition of Frederick County Bancorp, Inc. (FCBI), a bank holding company based in Frederick, Maryland. In addition, Frederick County Bank, a Maryland state-chartered bank and FCBI's wholly-owned subsidiary, merged with and into ACNB Bank. The acquisition was valued at $57.9 million and resulted in ACNB issuing 1,590,547 shares of common stock to FCBI stockholders.

BANKING SUBSIDIARY

ACNB Bank

ACNB Bank is a full-service commercial bank operating under charter from the Pennsylvania Department of Banking and Securities. The Bank's principal market areas include Adams County, Pennsylvania, and its environs in southcentral Pennsylvania, as well as Carroll County and Frederick County, Maryland, in northern Maryland. This geographic area depends on agriculture, industry, tourism, education and healthcare to provide employment for its residents. No single sector dominates the area's economy. At December 31, 2021, ACNB Bank had total assets of $2,773,000,000, total gross loans of $1,468,000,000, total deposits of $2,441,000,000, and total equity capital of $267,000,000. In October 2010, the Bank converted from a national banking association to a Pennsylvania state-chartered bank and trust company.

The main community banking office of the Bank is located at 16 Lincoln Square, Gettysburg, Pennsylvania. In addition to its main office, as of December 31, 2021, the Bank has a total of 19 community banking offices in Pennsylvania, including 12 offices in Adams County, five offices in York County, one office in Cumberland County, and one office in Franklin County. There are also loan production offices situated in Lancaster and York, Pennsylvania, and Hunt Valley, Maryland. NWSB Bank, a division of ACNB Bank, serves its local marketplace via a network of six community banking offices located in Carroll County, Maryland. FCB Bank, a division of ACNB Bank, serves its marketplace via a network of five community banking offices located in Frederick County, Maryland. The Bank's service delivery channels for its customers also include the ATM network, Customer Contact Center, and Online, Telephone and Mobile Banking. The Bank is subject to regulation and periodic examination by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation (FDIC). The FDIC, as provided by law, insures the Bank's deposits.

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

A trust is a legal fiduciary agreement whereby ACNB Bank, through its Trust & Investment Services function, is named as trustee of financial assets. As trustee, ACNB Bank invests, protects, manages and distributes financial assets as defined in the agreement. Estate settlement governed by the last will and testament of an individual constitutes another line of business for ACNB Bank Trust & Investment Services. One purpose of having a will is to name an executor to settle the estate. ACNB Bank has the knowledge and expertise to act as executor. Other services include, but are not limited to, those related to testamentary trusts, life insurance trusts, charitable remainder trusts, guardianships, powers of attorney, custodial accounts, and investment management and advisory accounts. Total trust assets under management were $331,000,000 at December 31, 2021.

In addition to ACNB Bank Trust & Investment Services, under the umbrella of ACNB Wealth Management, the Bank offers retail brokerage services through a third-party provider as a result of the acquisition of New Windsor State Bank effective July 1, 2017. This third-party provider is a broker/dealer, unaffiliated with ACNB Bank. At December 31, 2021, total assets under management with the broker/dealer were $206,000,000.

NONBANKING SUBSIDIARIES

ACNB Insurance Services, Inc.

On January 6, 2022, ACNB Corporation announced the name change and rebranding of the insurance subsidiary to ACNB Insurance Services, Inc. from Russell Insurance Group, Inc. effective January 1, 2022. This rebranding reinforces the common ownership by ACNB Corporation of both ACNB Bank and the insurance agency, as well as makes this affiliation more visible for businesses and consumers in order to leverage cross-selling opportunities in the shared communities served.

On February 28, 2022, ACNB Insurance Services, Inc. completed its acquisition of Hockley & O’Donnell Insurance Agency, LLC, located in Gettysburg, Pennsylvania.

ACNB Corporation’s wholly-owned subsidiary, ACNB Insurance Services, Inc., is a full-service insurance agency that offers a broad range of property, casualty, health, life and disability insurance to both commercial and personal clients with licenses in 44 states. Based in Westminster, Maryland, ACNB Insurance Services, Inc., has served the needs of its clients since its founding as an independent insurance agency by Frank C. Russell, Jr. in 1978. The agency was purchased by the Corporation in 2005. ACNB Insurance Services, Inc. operates additional locations in Germantown and Jarrettsville, Maryland, and Gettysburg, Pennsylvania. Total assets of ACNB Insurance Services, Inc. as of December 31, 2021, were $12,538,000.

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

MARKET AREA ECONOMIC FEATURES AND CONDITIONS

ACNB Corporation’s major operations are in the more rural areas of the Harrisburg-Carlisle MSA and the York-Hanover MSA in Pennsylvania, along with all of Adams County, Pennsylvania, parts of Franklin County, Pennsylvania, and all of Carroll County and Frederick County, Maryland. Approximately 60% of the population resides in areas designated rural. Major types of employers include those focused on manufacturing, education, healthcare, agriculture, tourism, and transportation/warehousing, as well as local governments. A material amount of land surrounding Gettysburg, Pennsylvania, is under the control of the National Park Service, limiting certain types of development. Unemployment figures in the subsidiary bank’s market recently, and historically, have been better than those for Pennsylvania and similar to the United States. Per capita and household incomes are generally under Pennsylvania averages. The unemployment rate during 2021 averaged 6.47% in the subsidiary bank’s six-county marketplace, while it was 5.70% overall in the two states and 5.40% in the United States.

COMPETITION

The financial services industry in ACNB’s market area is highly competitive, including competition for similar products and services from commercial banks, thrifts, credit unions, finance and mortgage companies, and other nonbank providers of financial services. Several of ACNB’s competitors have legal lending limits that exceed those of ACNB’s subsidiary bank, as well as funding sources in the capital markets that exceed ACNB’s availability. The high level of competition has resulted from changes in the legal and regulatory environment, as well as from the economic climate, customer expectations, and service alternatives via the internet. There are 86 publicly-traded banks in Pennsylvania and Maryland, 17 have greater market share than ACNB. In addition, there are 10 thrift institutions and numerous credit unions in Pennsylvania and Maryland, some with greater market share.

SUPERVISION AND REGULATION

Regulation of Bank Holding Company and Subsidiaries

BANK HOLDING COMPANY ACT OF 1956 — ACNB is a financial holding company and is subject to the regulations of the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956. Bank holding companies are required to file periodic reports with and are subject to examination by the Federal Reserve.

The Federal Reserve has issued regulations under the Bank Holding Company Act that require a financial holding company to serve as a source of financial and managerial strength to its subsidiary bank. As a result, the Federal Reserve may require ACNB to stand ready to use its resources to provide adequate capital funds to the Bank during periods of financial stress or adversity. In addition, the Federal Reserve may require a financial holding company to end a nonbanking business if the nonbanking business constitutes a serious risk to the financial soundness and stability of any banking subsidiary of the financial holding company.

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

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

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

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

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

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

The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, or the Exchange Act.

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

The SOA addresses, among other matters:

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

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

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

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

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

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

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

Holding Company Capital Requirements

Dodd-Frank requires the Federal Reserve to apply consolidated capital requirements to bank holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010, by a bank holding company with less than $15 billion in assets as of December 31, 2009. Dodd-Frank additionally requires that bank regulators issue countercyclical capital requirements so that the required amount of capital increases in times of economic expansion, consistent with safety and soundness. For further information, please refer to *Regulatory Capital Changes* in Management’s Discussion and Analysis.

Deposit Insurance

Dodd-Frank permanently increased the maximum deposit insurance amount for banks, savings institutions, and credit unions to $250,000 per depositor. Dodd-Frank also broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. Dodd-Frank requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. Dodd-Frank also eliminated the federal statutory prohibition against the payment of interest on business checking accounts.

Corporate Governance

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

Prohibition Against Charter Conversions of Troubled Institutions

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

Interstate Branching

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

Limits on Interstate Acquisitions and Mergers

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

Limits on Interchange Fees

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

Consumer Financial Protection Bureau

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

ABILITY-TO-REPAY AND QUALIFIED MORTGAGE RULE — Pursuant to Dodd-Frank as highlighted above, the CFPB issued a final rule on January 10, 2013 (effective on January 10, 2014), amending Regulation Z as implemented by the Truth in Lending Act, requiring mortgage lenders to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Mortgage lenders are required to determine the consumer’s ability to repay in one of two ways. The first alternative requires the mortgage lender to consider the following eight underwriting factors when making the credit decision: (1) current or reasonably expected income or assets; (2) current employment status; (3) the monthly payment on the covered transaction; (4) the monthly payment on any simultaneous loan; (5) the monthly payment for mortgage-related obligations; (6) current debt obligations, alimony, and child support; (7) the monthly debt-to-income ratio or residual income; and, (8) credit history. Alternatively, the mortgage lender can originate “qualified mortgages”, which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a “qualified mortgage” is a mortgage loan without negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount. Loans which meet these criteria will be considered qualified mortgages and, as a result, generally protect lenders from fines or litigation in the event of foreclosure. Qualified mortgages that are “higher-priced” (e.g., subprime loans) garner a rebuttable presumption of compliance with the ability-to-repay rules, while qualified mortgages that are not “higher-priced” (e.g., prime loans) are given a safe harbor of compliance. The impact of the final rule, and the subsequent amendments thereto, on the Corporation’s lending activities and the Corporation’s statements of income or condition has had little or no impact; however, management will continue to monitor the implementation of the rule for any potential effects on the Corporation’s business.

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

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

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

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

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

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

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

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

In the event an institution's capital deteriorates to the undercapitalized category or below, FDICIA prescribes an increasing amount of regulatory intervention, including the institution of a capital restoration plan and a guarantee of the plan by a parent institution and the placement of a hold on increases in assets, number of branches, or lines of business. If capital reaches the significantly or critically undercapitalized levels, further material restrictions can be imposed, including restrictions on interest payable on accounts, dismissal of management, and, in critically undercapitalized situations, appointment of a receiver. For well capitalized institutions, FDICIA provides authority for regulatory intervention when the institution is deemed to be engaging in unsafe or unsound practices or receives a less than satisfactory examination report rating for asset quality, management, earnings or liquidity. All but well capitalized institutions are prohibited from accepting brokered deposits without prior regulatory approval. Under FDICIA, financial institutions are subject to increased regulatory scrutiny and must comply with certain operational, managerial and compensation standards established by Federal Reserve Board regulations.

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

- A minimum ratio of common Tier 1 capital to risk-weighted assets of 4.5%.
- A minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%.
- A minimum ratio of total capital to risk-weighted assets of 8.0%.
- A minimum leverage ratio of 4.0%.

In addition, the final rules establish a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations began on January 1, 2016.

A more in-depth discussion of how these new capital rules affect ACNB Corporation appears under Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

- Raising the threshold requiring registration under the Securities Exchange Act of 1934 (Exchange Act) for banks and bank holding companies from 500 to 2,000 holders of record;
- Raising the threshold for triggering deregistration under the Exchange Act for banks and bank holding companies from 300 to 1,200 holders of record;
- Raising the limit for Regulation A offerings from $5 million to $50 million per year and exempting some Regulation A offerings from state blue sky laws;
- Permitting advertising and general solicitation in Rule 506 and Rule 144A offerings;
- Allowing private companies to use "crowd funding" to raise up to $1 million in any 12-month period, subject to certain conditions; and,
- Creating a new category of issuer, called an "Emerging Growth Company", for companies with less than $1 billion in annual gross revenue, which will benefit from certain changes that reduce the cost and burden of carrying out an equity initial public offering (IPO) and complying with public company reporting obligations for up to five years.

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

Dividends

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

Regulation of Bank

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

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

ACNB's stockholders. The subsidiary bank must file quarterly and annual reports to the Federal Financial Institutions Examination Council, or FFIEC.

Monetary and Fiscal Policy

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

ACCOUNTING POLICY DISCLOSURE

Disclosure of the Corporation's significant accounting policies is included in Note A — "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements. Some of these policies are particularly sensitive requiring significant judgments, estimates and assumptions to be made by management. Additional information is contained in Management's Discussion and Analysis for the most sensitive of these issues, including the provision and allowance for loan losses which is located in Note D — "Loans and Allowance for Loan Losses" in the Notes to Consolidated Financial Statements.

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

STATISTICAL DISCLOSURES

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

- Interest Rate Sensitivity Analysis
- Interest Income and Expense, Volume and Rate Analysis
- Investment Portfolio
- Loan Maturity and Interest Rate Sensitivity
- Loan Portfolio
- Allocation of Allowance for Loan Losses
- Deposits
- Short-Term Borrowings

AVAILABLE INFORMATION

The Corporation maintains a website on the Internet at investor.acnb.com. The Corporation makes available free of charge, on or through its website, its proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC). This reference to the Corporation's Internet address shall not, under any circumstances, be deemed to incorporate the information available at such Internet address into this Form 10-K or other SEC filings. The information available at the Corporation's Internet address is not part of this Form 10-K or any other report filed by the Corporation with the SEC. The Corporation's SEC filings can also be obtained on the SEC's website on the Internet at https://www.sec.gov.

EMPLOYEES

As of December 31, 2021, ACNB had 397 full-time equivalent employees. None of these employees are represented by a collective bargaining agreement, and ACNB believes it enjoys good relations with its personnel.

ACQUISITIONS

ACNB Corporation and its subsidiaries have pursued inorganic growth opportunities. On July 1, 2017, ACNB completed its acquisition of New Windsor Bancorp, Inc. (New Windsor), a bank holding company based in Taneytown, Maryland. Immediately thereafter, New Windsor State Bank, a Maryland state-chartered bank and New Windsor's wholly-owned subsidiary, merged with and into ACNB Bank. ACNB Bank operates in the Carroll County, Maryland, market as "NWSB Bank, A Division of ACNB Bank". This acquisition was valued at $33.3 million and resulted in ACNB issuing $4.5 million in cash and 938,360 shares of common stock to New Windsor stockholders.

Additionally, on January 11, 2020, ACNB completed its acquisition of Frederick County Bancorp, Inc. (FCBI) and its wholly-owned subsidiary, Frederick County Bank, headquartered in Frederick, Maryland. FCBI was merged with and into a wholly-owned subsidiary of ACNB Corporation immediately followed by the merger of Frederick County Bank with and into ACNB Bank. ACNB Bank operates in the Frederick County, Maryland, market as "FCB Bank, A Division of ACNB Bank".

Under the terms of the Reorganization Agreement, FCBI stockholders received 0.9900 share of ACNB Corporation common stock for each share of FCBI common stock that they owned as of the closing date. As a result, ACNB Corporation issued approximately 1,600,000 shares of its common stock and cash in exchange for fractional shares based upon $36.43, the determined market share price of ACNB Corporation common stock in accordance with the Reorganization Agreement.

On February 28, 2022, ACNB Insurance Services, Inc., the wholly owned insurance subsidiary of ACNB Corporation, acquired Hockley & O'Donnell Insurance Agency, LLC, located in Gettysburg, Pennsylvania.

ITEM 1A—RISK FACTORS

COVID-19 PANDEMIC RISKS

THE COVID-19 PANDEMIC HAS ADVERSELY IMPACTED ACNB'S BUSINESS AND FINANCIAL RESULTS, AND THE ULTIMATE IMPACT WILL DEPEND ON FUTURE DEVELOPMENTS, WHICH ARE HIGHLY UNCERTAIN AND CANNOT BE PREDICTED, INCLUDING THE SCOPE AND DURATION OF THE PANDEMIC AND ACTIONS TAKEN BY GOVERNMENTAL AUTHORITIES IN RESPONSE TO THE PANDEMIC.

The COVID-19 pandemic has negatively impacted the global, national and local economies, disrupted global and national supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic resulted in temporary closures of and restrictions on many businesses and the institution of social distancing and sheltering in place requirements in many states and communities and may result in the same or similar restrictions in the future. As a result, the demand for ACNB's products and services have been and may continue to be significantly adversely impacted, which could adversely and extensively affect ACNB's revenue and results of operations. Furthermore, the pandemic could continue to result in the recognition of credit losses in ACNB's loan portfolios and increases in ACNB's allowance for loan losses, particularly if businesses remain restricted or are required to close again, the impact on the global, national and local economies worsen, or more customers draw on their lines of credit or seek additional loans to help finance their businesses. Similarly, because of changing economic and market conditions affecting issuers, ACNB may be required to recognize further impairments on the securities they hold as well as reductions in other comprehensive income. ACNB's business operations may also be disrupted if significant portions of their workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. The extent to which the COVID-19 pandemic impacts ACNB's business, results of operations, and financial condition, as well as their regulatory capital and liquidity ratios, will depend on the continuing impact of current developments and future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

ACNB continues to closely monitor the COVID-19 pandemic and related risks as they evolve. The magnitude and duration of the current outbreak of COVID-19, further outbreaks of COVID-19, future actions taken by governmental authorities and/or other third parties in response to the COVID-19 pandemic, and its future direct and indirect effects on the global, national and local economies and ACNB's business and results of operation are highly uncertain. The COVID-19 pandemic may cause prolonged global or national recessionary economic conditions or longer lasting effects on economic conditions than currently exist, which could have a material adverse effect on ACNB's business, financial condition, and results of operations.

DUE TO ACNB'S PARTICIPATION IN THE U.S. SMALL BUSINESS ADMINISTRATION (SBA) PAYCHECK PROTECTION PROGRAM (PPP), ACNB IS SUBJECT TO ADDITIONAL RISKS OF LITIGATION FROM ITS CLIENTS OR OTHER PARTIES REGARDING THE PROCESSING OF LOANS FOR THE PPP AND RISKS THAT THE SBA MAY NOT FUND SOME OR ALL PPP LOAN GUARANTIES.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted, which included a $349 billion loan program administered through the SBA referred to as the PPP. Under the PPP, small businesses and other entities and individuals could apply for loans from existing SBA lenders and other approved regulated lenders. ACNB participated as a lender in the PPP. Because of the short timeframe between the passing of the CARES Act and the opening of the PPP, there was some ambiguity in the laws, rules and guidance regarding the operation of the PPP along with the continually evolving nature of the SBA rules, interpretations and guidelines concerning this program, which exposes ACNB to risks relating to noncompliance with the PPP. Since the launch of the PPP, several large banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP. As such, ACNB may be exposed to the risk of litigation, from both clients and non-clients that approached ACNB regarding PPP loans, relative to its process and procedures used in processing applications for the PPP. If any such litigation is filed against ACNB and is not resolved in a manner favorable to ACNB, it may result in significant financial liability or adversely affect ACNB's reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs, or reputational damage caused by PPP related litigation could have a material adverse impact on ACNB's business, financial condition, and results of operations.

ACNB also has credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, underwritten, certified by the borrower, funded, or serviced by ACNB, such as an issue with the eligibility of a borrower to receive a PPP loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operation of the PPP. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, certified by the borrower, funded, or serviced by ACNB, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from ACNB.

CREDIT RISKS

ACNB IS SUBJECT TO INTEREST RATE RISK.

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

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

ACNB IS SUBJECT TO CREDIT RISK.

As of December 31, 2021, approximately 69% of ACNB's loan portfolio consisted of commercial and industrial, construction, and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because ACNB's loan portfolio contains a significant number of commercial and industrial, construction, and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on ACNB's financial condition and results of operations.

ACNB'S ALLOWANCE FOR LOAN LOSSES MAY BE INSUFFICIENT.

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

BUSINESS RISKS

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

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

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

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

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

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

THE CORPORATION’S OPERATIONS OF ITS BUSINESS, INCLUDING ITS TRANSACTIONS WITH CUSTOMERS, ARE INCREASINGLY DONE VIA ELECTRONIC MEANS, AND THIS HAS INCREASED ITS RISKS RELATED TO CYBERSECURITY.

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

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

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

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

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

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

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

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

ACNB’s success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by ACNB can be intense, and ACNB may not be able to hire people or to retain them. The unexpected loss of services of one or more of ACNB’s key personnel could have a material adverse impact on ACNB’s business because the Corporation would no longer have the benefit of their skills, knowledge of ACNB's market, as well as years of industry experience, and it would be difficult to promptly find qualified replacement personnel. ACNB and/or one of its subsidiaries currently has employment agreements, including covenants not to compete, with the following named executive officers: its President & Chief Executive Officer; Executive Vice President/Secretary & Chief Governance Officer; Executive Vice President/Treasurer & Chief Financial Officer; and, the Executive Vice President/Chief Lending & Revenue Officer of ACNB Bank.

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

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

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

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

ACNB IS SUBJECT TO POTENTIAL IMPAIRMENT OF GOODWILL AND INTANGIBLES.

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

Accounting rules permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The goodwill impairment analysis involves comparing the reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of goodwill assigned to the reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. Subsequent reversal of goodwill impairment losses is not permitted.

Goodwill, which has an indefinite useful life, is evaluated pursuant to ASC Topic 350, *Intangibles — Goodwill and Other*, for impairment annually and is evaluated for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The goodwill impairment analysis involves comparing the reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of goodwill assigned to the reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. Subsequent reversal of goodwill impairment losses is not permitted. ACNB performs an annual evaluation to determine if there is goodwill impairment.

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

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

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

ACNB relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in ACNB's customer relationship management, general ledger, deposit, loan and other systems. While ACNB has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. Although ACNB maintains insurance coverage that may, subject to policy terms and conditions including significant self-insured deductibles, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses. The occurrence of any failures, interruptions or security breaches of ACNB's information systems could damage ACNB's reputation adversely affecting customer or investor confidence, result in a loss of customer business, subject ACNB to additional regulatory scrutiny and possible regulatory penalties, or expose ACNB to civil litigation and possible financial liability, any of which could have a material adverse effect on ACNB's financial condition and results of operations.

STRATEGIC AND EXTERNAL RISKS

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

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

THE EARNINGS OF FINANCIAL SERVICES COMPANIES ARE SIGNIFICANTLY AFFECTED BY GENERAL BUSINESS AND ECONOMIC CONDITIONS.

ACNB's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which ACNB operates, all of which are beyond ACNB's control. Deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values, and a decrease in demand for ACNB's products and services, among other things, any of which could have a material adverse impact on ACNB's financial condition and results of operations.

The regulatory environment for the financial services industry is being significantly impacted by financial regulatory reform initiatives in the United States and elsewhere, including Dodd-Frank and regulations promulgated to implement it.

Dodd-Frank, which was signed into law on July 21, 2010, comprehensively reforms the regulation of financial institutions, products and services. Dodd-Frank requires various federal regulatory agencies to implement numerous rules and regulations. Because the federal agencies are granted broad discretion in drafting these rules and regulations, many of the details and the impact of Dodd-Frank may not be known for many months or years.

While much of how Dodd-Frank and other financial industry reforms will change ACNB's current business operations depends on the specific regulatory reforms and interpretations, many of which have yet to be released or finalized, it is clear that the reforms, both under Dodd-Frank and otherwise, will have a significant effect on the entire industry. Although Dodd-Frank and other reforms will affect a number of the areas in which ACNB does business, it is not clear at this time the full extent of the adjustments that will be required and the extent to which ACNB will be able to adjust its businesses in response to the requirements. Although it is difficult to predict the magnitude and extent of these effects at this stage, ACNB believes compliance with Dodd-Frank and implementing its regulations and initiatives will negatively impact revenue and increase the cost of doing business, both in terms of transition expenses and on an ongoing basis, and it may also limit ACNB's ability to pursue certain business opportunities.

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

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

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

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

Like other financial holding companies and financial institutions, ACNB must comply with significant anti-money laundering and anti-terrorism laws. Under these laws, ACNB is required, among other things, to enforce a customer identification program and file currency transaction and suspicious activity reports with the federal government. Government agencies have substantial discretion to impose significant monetary penalties on institutions which fail to comply with these laws or make required reports. While ACNB has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

THE SOUNDNESS OF OTHER FINANCIAL INSTITUTIONS MAY ADVERSELY AFFECT ACNB.

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

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

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

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

ACNB's regulators or market conditions may require it to increase its capital levels. If ACNB raises capital through the issuance of additional shares of its common stock or other securities, it would likely dilute the ownership interests of current investors and would likely dilute the per share book value and earnings per share of its common stock. Furthermore, it may have an adverse impact on ACNB's stock price. New investors may also have rights, preferences and privileges senior to ACNB's current stockholders, which may adversely impact its current stockholders. ACNB's ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside its control, and on its financial performance.

Accordingly, ACNB cannot be assured of its ability to raise additional capital on terms and/or in time frames acceptable to it, or to raise additional capital at all. If ACNB cannot raise additional capital in sufficient amounts when needed, its ability to comply with regulatory capital requirements could be materially impaired. Additionally, the inability to raise capital in sufficient amounts may adversely affect ACNB's operations, financial condition, and results of operations.

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

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

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

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

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

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

- An analysis of the risk characteristics of various classifications of loans;
- Previous loan loss experience;
- Specific loans that would have loan loss potential;
- Delinquency trends;
- Estimated fair value of the underlying collateral;
- Current economic conditions;
- The views of ACNB's regulators;
- Reports of internal auditors;
- Reports of external auditors;
- Reports of loan reviews conducted by independent organizations; and,
- Geographic and industry loan concentrations.

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

- Borrowers may not be able to repay their loans;
- The value of the collateral securing ACNB's loans to borrowers may decline; and/or,
- The quality of ACNB's loan portfolio may decline.

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

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

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

ACNB CONTINUALLY ENCOUNTERS TECHNOLOGICAL CHANGE.

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

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

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

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

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

FUTURE ECONOMIC CONDITIONS MAY ADVERSELY AFFECT SECONDARY SOURCES OF LIQUIDITY.

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

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

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

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

CHANGES IN CONTROL OF THE UNITED STATES GOVERNMENT AND ISSUES RELATING TO DEBT AND THE DEFICIT MAY ADVERSELY AFFECT THE CORPORATION.

Changes in elected officials in the federal government could result in significant changes or uncertainty in governmental policies, regulatory environments, spending sentiment, and many other factors and conditions, some of which could adversely impact the Corporation's business, financial condition, and results of operations. In addition, as a result of past difficulties of the federal government to reach agreement over federal debt and issues connected with the debt ceiling, certain rating agencies placed the United States government's long-term sovereign debt rating on their equivalent of negative watch and announced the possibility of a rating downgrade. The rating agencies, due to constraints related to the rating of the United States, also placed government-sponsored enterprises in which the Corporation invests and receives lines of credit on negative watch, and a downgrade of the Unites States government's credit rating would trigger a similar downgrade in the credit rating of these government-sponsored enterprises. Furthermore, the credit rating of other entities, such as state and local governments, may also be downgraded should the United States government's credit rating be downgraded. The impact that a credit rating downgrade may have on the national and local economy could have an adverse effect on ACNB's financial condition and results of operations.

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

Poor economic conditions and the resulting bank failures increased the costs of the FDIC and adversely impacted its Deposit Insurance Fund. Any additional bank failures may prompt the FDIC to increase its premiums or to issue special assessments. ACNB is generally unable to control the amount of premiums or special assessments that its banking subsidiary is required to pay for FDIC insurance. Any future changes in the calculation or assessment of FDIC insurance premiums may have a material adverse effect on ACNB's financial condition and results of operations.

FEDERAL INCOME TAX REFORM COULD HAVE UNFORESEEN EFFECTS ON ACNB'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In 2017, the "Tax Cuts and Jobs Act" was enacted. The Tax Cuts and Jobs Act includes a number of provisions, including the lowering of the U.S. corporate tax rate from 35% to 21% effective January 1, 2018. There are also provisions that may partially offset the benefit of such rate reduction. Financial statement impacts include adjustments for, among other things, the remeasurement of deferred tax assets and liabilities. While there are benefits, there is also substantial uncertainty regarding the details of U.S. Tax Reform. The long-term intended and unintended consequences of the Tax Cuts and Jobs Act on the Corporation's business and on holders of ACNB common shares is uncertain and could be adverse. ACNB anticipates that the impact of the Tax Cuts and Jobs Act may be material to its business, financial condition, and results of operations. In addition, recent electoral changes and results may result in new tax legislation which may have an adverse impact on the Corporation and its operations.

THE INCREASING USE OF SOCIAL MEDIA PLATFORMS PRESENTS NEW RISKS AND CHALLENGES AND THE INABILITY OR FAILURE TO RECOGNIZE, RESPOND TO, AND EFFECTIVELY MANAGE THE ACCELERATED IMPACT OF SOCIAL MEDIA COULD MATERIALLY ADVERSELY IMPACT ACNB'S BUSINESS.

There has been a marked increase in the use of social media platforms, including weblogs (blogs), social media websites, and other forms of internet-based communications which allow individuals access to a broad audience of consumers and other interested persons. Social media practices in the banking industry are evolving, which creates uncertainty and risk of noncompliance with regulations applicable to ACNB's business. Consumers value readily-available information concerning businesses and their goods and services, and often act on such information without further investigation and without regard to its accuracy. Many social media platforms immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to ACNB's interests and/or may be inaccurate. The dissemination of information online could harm ACNB's business, prospects, financial condition, and results of operations, regardless of the information's accuracy. The harm may be immediate without affording ACNB an opportunity for redress or correction.

Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about ACNB's business, exposure of personally identifiable information, fraud, out-of-date information, and improper use by employees and customers. The inappropriate use of social media by ACNB's employees or customers could result in negative consequences such as remediation costs including training for employees, additional regulatory scrutiny, and possible regulatory penalties, litigation, or negative publicity that could damage ACNB's reputation adversely affecting customer or investor confidence.

A NEW ACCOUNTING STANDARD MAY REQUIRE ACNB TO INCREASE ITS ALLOWANCE FOR LOAN LOSSES AND MAY HAVE A MATERIAL ADVERSE EFFECT ON ACNB'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

A new accounting standard will result in a significant change in how ACNB recognizes credit losses and may have a material impact on ACNB' s financial condition or results of operations.

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss (CECL) model. Under the CECL model, ACNB will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current generally accepted accounting principles (GAAP), which delays recognition until it is probable a loss has been incurred. Accordingly, ACNB expects that the adoption of the CECL model will materially affect how ACNB determines the allowance for loan losses and could require ACNB to significantly increase the allowance. Moreover, the CECL model may create more volatility in the level of ACNB's allowance for loan losses. If ACNB is required to materially increase the level of allowance for loan losses for any reason, such increase could adversely affect ACNB's business, financial condition and results of operations.

Until recently, the new CECL standard was expected to become effective for ACNB on January 1, 2020, and for interim periods within that year. In October 2019, FASB voted to delay implementation of the new CECL standard for certain companies, including those companies that qualify as a smaller reporting company under SEC rules, until January 1, 2023. ACNB currently expects to continue to qualify as a smaller reporting company, based upon the current SEC definition, and as a result will likely be able to defer implementation of the new CECL standard for a period of time. Nevertheless, ACNB continues to evaluate the impact the CECL model will have on the accounting for credit losses, but ACNB expects to recognize a one-time cumulative-effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. ACNB cannot yet determine the magnitude of such one-time cumulative-effect adjustment or of the overall impact of the new standard on ACNB's business, financial condition and results of operations.

LITIGATION AND REGULATORY ACTIONS, INCLUDING POSSIBLE ENFORCEMENT ACTIONS, COULD SUBJECT ACNB AND ITS SUBSIDIARIES TO SIGNIFICANT FINES, PENALTIES, JUDGMENTS, OR OTHER REQUIREMENTS RESULTING IN INCREASED EXPENSES OR RESTRICTIONS ON BUSINESS ACTIVITIES.

In the normal course of business, from time to time, ACNB or its subsidiaries may be named as a defendant in various legal actions, arising in connection with current and/or prior business activities. Legal actions could include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. Further, ACNB or its subsidiary bank may in the future be subject to consent orders or other formal or informal enforcement agreements with regulators. They may also, from time to time, be the subject of subpoenas, requests for information, reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding current and/or prior business activities. Any such legal or regulatory actions may subject ACNB or its subsidiaries to substantial compensatory or punitive damages, significant fines, penalties, obligations to change business practices, or other requirements resulting in increased expenses, diminished income, and damage to their reputation. Involvement in any such matters, whether tangential or otherwise, and even if the matters are ultimately determined in their favor, could also cause significant harm to their reputation and divert management attention from the operation of their business. Further, any settlement, consent order, other enforcement agreement or adverse judgment in connection with any formal or informal proceeding or investigation by governmental agencies may result in litigation, investigations or proceedings as other litigants and governmental agencies begin independent reviews of the same activities. As a result, the outcome of legal and regulatory actions could have a material adverse effect on ACNB's business, financial condition, and results of operations.

POTENTIAL ACQUISITIONS MAY DISRUPT ACNB'S BUSINESS AND DILUTE STOCKHOLDER VALUE.

ACNB regularly evaluates opportunities to acquire and invest in banks and in other complementary businesses. As a result, ACNB may engage in negotiations or discussions that, if they were to result in a transaction, could have a material effect on ACNB's operating results and financial condition, including short- and long-term liquidity and capital structure. ACNB's acquisition activities could be material to ACNB. For example, ACNB could issue additional shares of common stock in a purchase transaction, which could dilute current stockholders' ownership interest. These activities could require ACNB to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with ACNB's prior or potential future acquisitions were determined to be impaired, then ACNB would be required to recognize a charge against its earnings, which could materially and adversely affect ACNB's results of operations during the period in which the impairment was recognized. Any potential charges for impairment related to goodwill would not impact cash flow, tangible capital or liquidity but would decrease stockholders' equity.

ACNB's acquisition activities could involve a number of additional risks, including the risks of:

- Incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions;
- Using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or its assets;
- The time and expense required to integrate the operations and personnel of the combined businesses;
- Creating an adverse short-term effect on ACNB's results of operations; and,
- Losing key employees and customers as a result of an acquisition that is poorly received.

ACNB may not be successful in overcoming these risks or any other problems encountered in connection with potential acquisitions. ACNB's inability to overcome these risks could have an adverse effect on ACNB's ability to achieve its business strategy and maintain its market value.

THE STOCK MARKET CAN BE VOLATILE, AND FLUCTUATIONS IN ACNB'S OPERATING RESULTS AND OTHER FACTORS COULD CAUSE ACNB'S STOCK PRICE TO DECLINE.

The stock market has experienced, and may continue to experience, fluctuations that significantly impact the market prices of securities issued by many companies and financial institutions specifically. Market fluctuations could adversely affect ACNB's stock price. These fluctuations have often been unrelated or disproportionate to the operating performance of particular companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, loss of investor confidence, interest rate changes, government shutdowns, trade wars, pandemics or epidemics, or international currency fluctuations, may negatively affect the market price of ACNB's common stock. Moreover, ACNB's operating results may fluctuate and vary from period to period due to the risk factors set forth herein. As a result, period-to-period comparisons should not be relied upon as an indication of future performance. ACNB's stock price could fluctuate significantly in response to ACNB's quarterly or annual results, annual projections and the impact of these risk factors on ACNB's operating results or financial position.

Although ACNB's common stock is quoted on the Nasdaq Capital Market, the volume of trades on any given day has been limited historically, as a result of which stockholders might not have been able to sell or purchase ACNB's common stock at the volume, price, or time desired. From time to time, ACNB's common stock may be included in certain and various stock market indices. Inclusion in these indices may positively impact the price, trading volume, and liquidity of ACNB's common stock, in part, because index funds or other institutional investors often purchase securities that are in these indices. Conversely, if ACNB's market capitalization falls below the minimum necessary to be included in any of the indices at any annual reconstitution date, the opposite could occur. Further, ACNB's inclusion in indices may be weighted based on the size of ACNB's market capitalization, so even if ACNB's market capitalization remains above the amount required to be included on these indices, if ACNB's market capitalization is below the amount it was on the most recent reconstitution date, ACNB's common stock could be weighted at a lower level. If ACNB's common stock is weighted at a lower level, holders attempting to track the composition of these indices will be required to sell ACNB's common stock to match the reweighting of the indices.

WEALTH MANAGEMENT AND INSURANCE INDUSTRY RISKS

REVENUES AND PROFITABILITY FROM ACNB'S WEALTH MANAGEMENT BUSINESS MAY BE ADVERSELY AFFECTED BY ANY REDUCTION IN ASSETS UNDER MANAGEMENT AND SUPERVISION AS A RESULT OF EITHER A DECLINE IN MARKET VALUE OF SUCH ASSETS OR NET OUTFLOWS, WHICH COULD REDUCE TRUST, INVESTMENT ADVISORY AND BROKERAGE, AND OTHER SERVICING FEES EARNED.

The wealth management business derives the majority of its revenue from noninterest income which consists of trust, investment advisory and brokerage, and other servicing fees. Substantial revenues are generated from investment management contracts with clients. Under these contracts, the investment advisory fees paid to us are typically based on the market value of assets under management. Assets under management and supervision may decline for various reasons including declines in the market value of the assets in the funds and accounts managed or supervised, which could be caused by price declines in the securities markets generally or by price declines in specific market segments. Assets under management may also decrease due to redemptions and other withdrawals by clients or termination of contracts. This could be in response to adverse market conditions or in pursuit of other investment opportunities. Any reduction in assets under management and supervision may adversely impact ACNB's profitability.

THE WEALTH MANAGEMENT INDUSTRY IS SUBJECT TO EXTENSIVE REGULATION, SUPERVISION AND EXAMINATION BY REGULATORS, AND ANY ENFORCEMENT ACTION OR ADVERSE CHANGES IN THE LAWS OR REGULATIONS GOVERNING ACNB'S WEALTH MANAGEMENT BUSINESS COULD DECREASE ACNB'S REVENUES AND PROFITABILITY.

The wealth management business is subject to regulation by a number of regulatory agencies that are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets. In the event of noncompliance with an applicable regulation, governmental regulators, including the SEC and FINRA, may institute administrative or judicial proceedings that may result in censure, fines, civil penalties, issuance of cease-and-desist orders, deregistration or suspension of the noncompliant broker-dealer or investment advisor, or other adverse consequences. The imposition of any such penalties or orders could have a material adverse effect on the wealth management segment's operating results and financial condition. ACNB may also be adversely affected as a result of new or revised legislation or regulations. Regulatory changes have imposed and may continue to impose additional costs, which may adversely impact ACNB's profitability.

REVENUES AND PROFITABILITY FROM ACNB'S INSURANCE BUSINESS MAY BE ADVERSELY AFFECTED BY MARKET CONDITIONS, WHICH COULD REDUCE INSURANCE COMMISSIONS AND FEES EARNED.

The revenues of ACNB's fee-based insurance business are derived primarily from commissions from the sale of insurance policies, which commissions are generally calculated as a percentage of the policy premium. These insurance policy commissions can fluctuate as insurance carriers from time to time increase or decrease the premiums on the insurance products sold. Due to the cyclical nature of the insurance market and the impact of other market and macroeconomic conditions on insurance premiums, commission levels may vary. The reduction of these commission rates, along with general volatility and/or declines in premiums, may adversely impact ACNB's profitability.

ITEM 1B—UNRESOLVED STAFF COMMENTS

None.

ITEM 2—PROPERTIES

ACNB Bank, in addition to its main community banking office in Gettysburg, Adams County, Pennsylvania, had a community banking office network of 30 offices in Pennsylvania and Maryland at December 31, 2021. Including the main office, 13 community banking offices are located in Adams County, one is located in Cumberland County, one is located in Franklin County, and five are located in York County, Pennsylvania. There are also loan production offices situated in Lancaster and York Counties, Pennsylvania, as well as another loan production office in Hunt Valley, Maryland. In Maryland, there are six community banking offices located in Carroll County, all branded as NWSB Bank, a division of ACNB Bank, and five community banking offices located in Frederick County, all branded as FCB Bank, a division of ACNB Bank. Bank offices at 22 locations are owned, while 12 are leased. All real estate owned by the subsidiary bank is free and clear of encumbrances. ACNB Insurance Services, Inc. owns offices, free and clear of encumbrances, located in Carroll County and Harford County, Maryland, and leases offices in Montgomery County, Maryland, and Gettysburg, Pennsylvania.

ITEM 3—LEGAL PROCEEDINGS

As of December 31, 2021, there were no material pending legal proceedings, other than ordinary routine litigation incidental to and in the ordinary course of the business, to which ACNB or its subsidiaries are a party or by which any of their assets are the subject, which could have a material adverse effect on ACNB or its subsidiaries or their results of operations. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Corporation or its subsidiaries by governmental authorities.

ITEM 4—MINE SAFETY DISCLOSURES

Not Applicable.

PART II

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

ACNB Corporation's common stock trades on NASDAQ under the symbol ACNB. At December 31, 2021 and 2020, there were 20,000,000 shares of common stock authorized, 8,795,877 and 8,771,993 shares issued, respectively, and 8,679,206 and 8,709,393 shares outstanding, respectively. As of December 31, 2021, ACNB had approximately 2,530 stockholders of record. ACNB is restricted as to the amount of dividends that it can pay to stockholders by virtue of the restrictions on the banking subsidiary's ability to pay dividends to ACNB under the Pennsylvania Banking Code, the Federal Deposit Insurance Corporation Act, and the regulations of the FDIC. For further information, please refer to Note J — "Regulatory Restrictions on Dividends" and Note N — "Stockholders' Equity and Regulatory Matters" in the Notes to Consolidated Financial Statements.

On May 5, 2009, stockholders approved and ratified the ACNB Corporation 2009 Restricted Stock Plan, effective as of February 24, 2009, in which awards shall not exceed, in the aggregate, 200,000 shares of common stock. As of December 31, 2021, there were 25,945 shares of common stock granted as restricted stock awards to employees of the subsidiary bank. The restricted stock plan expired by its own terms after 10 years on February 24, 2019, and no further shares may be issued under the plan. The Corporation's Registration Statement under the Securities Act of 1933 on Form S-8 for the ACNB Corporation 2009 Restricted Stock Plan was filed with the Securities and Exchange Commission on January 4, 2013. Post-Effective Amendment No. 1 to this Form S-8 was filed with the Commission on March 8, 2019, effectively transferring the 174,055 authorized, but not issued, shares under the ACNB Corporation 2009 Restricted Stock Plan to the ACNB Corporation 2018 Omnibus Stock Incentive Plan.

On May 5, 2009, stockholders approved and adopted the amendment to the Articles of Incorporation of ACNB Corporation to authorize up to 20,000,000 shares of preferred stock, par value $2.50 per share. As of December 31, 2021, there were no issued or outstanding shares of preferred stock.

On January 24, 2011, the ACNB Corporation Dividend Reinvestment and Stock Purchase Plan was introduced for stockholders of record. This plan provides registered holders of ACNB Corporation common stock with a convenient way to purchase additional shares of common stock by permitting participants in the plan to automatically reinvest cash dividends on all or a portion of the shares owned and to make quarterly voluntary cash payments under the terms of the plan. Participation in the plan is voluntary, and there are eligibility requirements to participate in the plan. As of December 31, 2021, there were 214,495 shares of common stock issued through the ACNB Corporation Dividend Reinvestment and Stock Purchase Plan.

On May 1, 2018, stockholders approved and ratified the ACNB Corporation 2018 Omnibus Stock Incentive Plan, effective as of March 20, 2018, in which awards shall not exceed, in the aggregate, 400,000 shares of common stock, plus any shares that are authorized, but not issued, under the ACNB Corporation 2009 Restricted Stock Plan. As of December 31, 2021, there were 35,587 shares issued under this plan. The maximum number of shares that may yet be granted under this plan is 538,468. The Corporation's Registration Statement under the Securities Act of 1933 on Form S-8 for the ACNB Corporation 2018 Omnibus Stock Incentive Plan was filed with the Securities and Exchange Commission on March 8, 2019. In addition, on March 8, 2019, the Corporation filed Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 for the ACNB Corporation 2009 Restricted Stock Plan to add the ACNB Corporation 2018 Omnibus Stock Incentive Plan to the registration statement.

On February 25, 2021, the Corporation announced that the Board of Directors approved on February 23, 2021, a plan to repurchase, in open market and privately negotiated transactions, up to 261,000, or approximately 3%, of the outstanding shares of the Corporation's common stock. This new stock repurchase program replaces and supersedes any and all earlier announced repurchase plans. There were 54,071 treasury shares purchased under this plan as of December 31, 2021. There have been 38,970 shares purchased during the most recent quarter, and as of December 31, 2021, 206,929 shares can still be purchased under the program. At December 31, 2020, there were 62,600 shares of treasury stock purchased by the Corporation through the common stock repurchase program approved in October 2008. This repurchase program has been replaced by the February 2021 plan and no further shares can be repurchased under the October 2008 plan.

On September 30, 2021, the Corporation entered into an issuer stock repurchase agreement with an independent third-party broker under which the broker is authorized to repurchase the Corporation's common stock on behalf of the Corporation during the period from the close of business on September 30, 2021 through March 31, 2022, subject to certain price, market and volume constraints specified in the agreement. The agreement was established in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (Exchange Act). The shares will be purchased pursuant to the Corporation's previously announced stock repurchase program and in a manner consistent with applicable laws and regulations, including the provisions of the safe harbor contained in Rule 10b-18 under the Exchange Act.

There have been no unregistered sales of stock in 2021 or 2020.

ITEM 6— [Reserved]

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

INTRODUCTION

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

CRITICAL ACCOUNTING POLICIES

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

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

The evaluation of securities for other-than-temporary impairment requires a significant amount of judgment. In estimating other-than-temporary impairment losses, management considers various factors including the length of time the fair value has been below cost, the financial condition of the issuer, and the Corporation's intent to sell, or requirement to sell, the security before recovery of its value. Declines in fair value that are determined to be other than temporary are charged against earnings.

Accounting Standards Codification (ASC) Topic 350, *Intangibles — Goodwill and Other,* requires that goodwill is not amortized to expense, but rather that it be assessed or tested for impairment at least annually. Impairment write-downs are charged to results of operations in the period in which the impairment is determined. The Corporation did not identify any impairment on ACNB Insurance Services, Inc.'s outstanding goodwill from its most recent testing, which was performed as of October 1, 2021. The Corporation did not identify any impairment on the Bank's outstanding goodwill from its most recent qualitative assessment, which was completed as of December 31, 2021. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. Other acquired intangible assets that have finite lives, such as core deposit intangibles, customer relationship intangibles and renewal lists, are amortized over their estimated useful lives and subject to periodic impairment testing. Core deposit intangibles are primarily amortized over ten years using accelerated methods. Customer renewal lists are amortized using the straight line method over their estimated useful lives which range from eight to fifteen years.

EXECUTIVE OVERVIEW

	For the Year Ended December 31,				
Dollars in thousands, except per share data	**2021**	**2020**	**2019**	**2018**	**2017**
INCOME STATEMENT DATA					
Interest income	**$ 78,159**	$ 85,290	$ 69,558	$ 64,494	$ 51,785
Interest expense	**6,915**	12,222	10,140	7,399	5,433
Net interest income	**71,244**	73,068	59,418	57,095	46,352
Provision for loan losses	**50**	9,140	600	1,620	—
Net interest income after provision for loan losses	**71,194**	63,928	58,818	55,475	46,352
Other income	**22,776**	20,090	18,169	15,948	14,149
Other expenses	**58,951**	61,316	47,621	44,703	44,079
Income before income taxes	**35,019**	22,702	29,366	26,720	16,422
Provision for income taxes	**7,185**	4,308	5,645	4,972	6,634
Net income	**$ 27,834**	$ 18,394	$ 23,721	$ 21,748	$ 9,788
BALANCE SHEET DATA (AT YEAR-END)					
Assets	**$ 2,786,987**	$ 2,555,362	$ 1,720,253	$ 1,647,724	$ 1,595,432
Securities	**$ 446,161**	$ 350,182	$ 212,177	$ 190,835	$ 203,880
Loans, net	**$ 1,449,394**	$ 1,617,558	$ 1,258,766	$ 1,288,501	$ 1,230,194
Deposits	**$ 2,426,389**	$ 2,185,525	$ 1,412,260	$ 1,348,092	$ 1,298,492
Borrowings	**$ 69,902**	$ 92,209	$ 99,731	$ 118,164	$ 131,508
Stockholders' equity	**$ 272,114**	$ 257,972	$ 189,516	$ 168,137	$ 153,966
COMMON SHARE DATA					
Earnings per share — basic	**$ 3.19**	$ 2.13	$ 3.36	$ 3.09	$ 1.50
Cash dividends declared	**$ 1.03**	$ 1.00	$ 0.98	$ 0.89	$ 0.80
Book value per share	**$ 31.35**	$ 29.62	$ 26.77	$ 23.86	$ 21.92
Weighted average number of common shares	**8,714,926**	8,638,654	7,061,524	7,035,818	6,543,756
Dividend payout ratio	**32.22 %**	47.22 %	29.17 %	28.79 %	53.46 %
PROFITABILITY RATIOS AND CONDITION					
Return on average assets	**1.03 %**	0.78 %	1.40 %	1.34 %	0.69 %
Return on average equity	**10.52 %**	7.39 %	13.33 %	13.62 %	7.12 %
Average stockholders' equity to average assets	**9.81 %**	10.53 %	10.54 %	9.85 %	9.69 %
SELECTED ASSET QUALITY RATIOS					
Non-performing loans to total loans	**0.42 %**	0.48 %	0.40 %	0.52 %	0.63 %
Net charge-offs to average loans outstanding	**0.08 %**	0.16 %	0.06 %	0.13 %	0.02 %
Allowance for loan losses to total loans	**1.30 %**	1.23 %	1.09 %	1.07 %	1.12 %
Allowance for loan losses to non-performing loans	**306.05 %**	256.16 %	269.27 %	206.51 %	177.77 %

ACNB Corporation uses non-GAAP financial measures to provide information useful to investors in understanding our operating performance and trends, and to facilitate comparisons with the performance of our peers. The non-GAAP financial measures and key performance indicators we use may differ from the non-GAAP financial measures and key performance indicators other financial institutions use to measure their performance and trends. Reconciliations of GAAP to non-GAAP operating measures to the most directly comparable GAAP financial measures are included in the tables below.

Dollars in thousands, except per share data	Three Months Ended December 31,		For the Years Ended December 31,	
INCOME STATEMENT DATA	**2021**	**2020**	**2021**	**2020**
Interest income	**$ 18,674**	$ 21,472	**$ 78,159**	$ 85,290
Interest expense	**1,324**	2,570	**6,915**	12,222
Net interest income	**17,350**	18,902	**71,244**	73,068
Provision for loan losses	**—**	1,040	**50**	9,140
Net interest income after provision for loan losses	**17,350**	17,862	**71,194**	63,928
Other income	**5,633**	6,019	**22,776**	20,090
Merger-related expenses	**—**	—	**—**	5,965
Other expenses	**17,457**	15,094	**58,951**	55,351
Income before income taxes	**5,526**	8,787	**35,019**	22,702
Provision for income taxes	**1,031**	1,738	**7,185**	4,308
Net income	**$ 4,495**	$ 7,049	**$ 27,834**	$ 18,394
Basic earnings per share	**$ 0.52**	$ 0.81	**$ 3.19**	$ 2.13
NON-GAAP MEASURES				
INCOME STATEMENT DATA				
Net Income	**$ 4,495**	$ 7,049	**$ 27,834**	$ 18,394
Merger-related expenses, net of income taxes	**—**	—	**—**	4,639
Net income without nonrecurring items (non-GAAP)	**$ 4,495**	$ 7,049	**$ 27,834**	$ 23,033
Basic earnings per share (non-GAAP)	**$ 0.52**	$ 0.81	**$ 3.19**	$ 2.67

The 2021 net income figure of $27,834,000 represents a 51.3% increase over the net income results for the year ended December 31, 2020. Basic earnings per share in 2021 increased 49.8% over the earnings per share for 2020.

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

The Corporation’s overall strategy is to increase loan growth in local markets, while maintaining a reasonable funding base by offering competitive deposit products and services. The year 2021 was challenging for financial institutions with COVID-19 continuing to constrain economic activity and loans declining. ACNB continued to be profitable, well capitalized exercising its strategic plan and operationally sound despite these challenges.

Lower Provision for Loan Losses, improved fee income and decreased expenses (the prior year included nonrecurring merger-related expenses) offset lower net interest income, resulting in increased income before income taxes of $35,019,000 in 2021, compared to $22,702,000 in 2020. After state and federal taxes, net income increased to $27,834,000, or $3.19 per share, in 2021, compared to $18,394,000, or $2.13 per share, in 2020. Returns on average equity were 10.52% and 7.39% in 2021 and 2020, respectively.

In 2021, the Corporation’s net interest margin was reduced to 2.82%, compared to 3.35% in 2020. Net interest income was $71,244,000 in 2021, as compared to $73,068,000 in 2020.

Other income was $22,776,000 and $20,090,000 in 2021 and 2020, respectively. The largest source of other income is commissions from insurance sales attributable to ACNB Insurance Services, Inc. Commissions from insurance sales increased by 0.4% in 2021 to $6,151,000, because of higher contingent commissions as a result of specific practices of the insurance carriers. There were no sales of securities in 2021 or 2020. A $439,000 net fair value gain (fair value change, none were sold) was recognized on local bank and CRA-related equity securities in 2021 due to frequent market changes in publicly-traded stocks, compared to a $193,000 net fair value loss in 2020. Income from fiduciary, investment management and brokerage activities, which includes fees from both institutional and personal trust, investment management services, estate settlement and brokerage services, totaled $3,169,000 for 2021, as compared to $2,672,000 for 2020, an 18.6% net increase as a net result of higher fee volume from increased assets under management, lower sporadic estate fee income, and 34% higher fees on brokerage relationships. Service charges on deposit accounts increased 4.6% to $3,510,000 for 2021, due to revived consumer spending that creates the Bank’s fees. Fee volume varies with balance levels, account transaction activity, and customer-driven events such as overdrawing account balances. Revenue from ATM and debit card transactions increased 15.0% to $3,387,000 due to increased customer use of electronic products during shutdowns and subsequent re-openings.

Other expenses decreased to $58,951,000, or by 3.9%, in 2021, as compared to $61,316,000 in 2020. The largest component of other expenses is salaries and employee benefits, which increased 4.4% to $36,816,000 in 2021, compared to $35,278,000 in 2020, due to an increased fourth quarter incentive accruals, annual merit increases, and lowered cost of benefits. Compared to 2020, occupancy expense increased 11.8% in 2021 mostly due to higher seasonal costs and catch up on COVID-19 deferred maintenance; and tech equipment expense increased 13.5% due to fourth quarter booked conversion cost and higher expense structure of a new core system. Professional services expense decreased 8.0% from sporadic risk, loan, legal and corporate governance engagements. Marketing and corporate relations expense decreased by 48.8% due to muted specific campaigns and brand awareness activities. FDIC and regulatory expense increased by 55.8% based on these agencies' formulas and credits and COVID-19 related high balance sheet growth. Merger-related expenses were $0 in 2021, compared to $5,965,000 in 2020, due to the majority of FCBI acquisition expenses occurring in 2020. A more thorough discussion of the Corporation's results of operations is included in the following pages.

RESULTS OF OPERATIONS

Net Interest Income

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

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

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

Table 1 — Average Balances, Rates and Interest Income and Expense

	2021			2020		
Dollars in thousands	**Average Balance**	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**
INTEREST EARNING ASSETS						
Loans	**$ 1,552,074**	**$ 71,186**	**4.59 %**	$ 1,671,428	$ 78,967	4.72 %
Taxable securities	**358,256**	**5,423**	**1.51 %**	268,667	4,927	1.83 %
Tax-exempt securities	**38,829**	**543**	**1.40 %**	26,079	470	1.80 %
Total Securities	**397,085**	**5,966**	**1.50 %**	294,746	5,397	1.83 %
Other	**578,150**	**1,007**	**0.17 %**	215,318	926	0.43 %
Total Interest Earning Assets	**2,527,309**	**78,159**	**3.09 %**	2,181,492	85,290	3.91 %
Cash and due from banks	**23,799**			22,644		
Premises and equipment	**30,742**			30,206		
Other assets	**136,035**			147,394		
Allowance for loan losses	**(19,927)**			(17,076)		
Total Assets	**$ 2,697,958**			$ 2,364,660		
LIABILITIES AND STOCKHOLDERS' EQUITY						
INTEREST BEARING LIABILITIES						
Interest bearing demand deposits	**$ 872,729**	**$ 911**	**0.10 %**	$ 673,981	$ 964	0.14 %
Savings deposits	**367,543**	**664**	**0.18 %**	297,134	1,207	0.41 %
Time deposits	**494,322**	**3,437**	**0.70 %**	514,303	8,147	1.58 %
Total Interest Bearing Deposits	**1,734,594**	**5,012**	**0.29 %**	1,485,418	10,318	0.69 %
Short-term borrowings	**35,153**	**39**	**0.11 %**	37,185	59	0.16 %
Long-term borrowings	**49,935**	**1,864**	**3.73 %**	58,498	1,845	3.15 %
Total Interest Bearing Liabilities	**1,819,682**	**6,915**	**0.38 %**	1,581,101	12,222	0.77 %
Non-interest bearing demand deposits	**594,483**			499,100		
Other liabilities	**19,119**			35,462		
Stockholders' equity	**264,674**			248,997		
Total Liabilities and Stockholders' Equity	**$ 2,697,958**			$ 2,364,660		
NET INTEREST INCOME		**$ 71,244**			$ 73,068	
INTEREST RATE SPREAD			**2.71 %**			3.14 %
NET INTEREST MARGIN			**2.82 %**			3.35 %

For yield calculation purposes, nonaccruing loans are included in average loan balances. Loan fees (including PPP fees) of $5,623,000 and $3,391,000 as of December 31, 2021 and 2020, respectively, are included in interest income. Yields on tax-exempt securities and loans are not tax effected.

Table 1 presents balance sheet items on a daily average basis, net interest income, interest rate spread, and net interest margin for the years ending December 31, 2021 and 2020. Table 2 analyzes the relative impact on net interest income for changes in the volume of interest earning assets and interest bearing liabilities and changes in rates earned and paid by the Corporation on such assets and liabilities.

Net interest income totaled $71,244,000 for the year ended December 31, 2021, compared to $73,068,000 for the same period in 2020, a decrease of $1,824,000, or 2.5%. Net interest income decreased due to a decrease in interest income to a greater extent than a decrease in interest expense. Interest income decreased $7,131,000, or 8.4%, due to the change in mix of average earning assets, in addition to decreased rates due to market events. Interest expense decreased $5,307,000, or 43.4%, in 2021 from 2020. The decrease in interest expense resulted from deposit rate decreases in addition to a favorable change in deposit mix (as discussed below). Decreased loans outstanding was a result of active participation in the SBA Payroll Protection Program (PPP) offset by loan paydowns and payoffs (including mostly 2021 PPP loans payoffs), despite concerted effort by management to offset the recent year trend of the market area's heightened competition and the COVID-19 related slow economic conditions. Loan yields were negatively impacted by declines in the U.S. Treasury yields and other market driver interest rates. The year 2021 saw continued lower market yields and the difference between longer term rates and shorter term rates was increasing. These driver rates affect new loan originations and are indexed to a portion of the loan portfolio in that a change in the driver rates changes the yield on new loans and on existing loans at subsequent interest rate reset dates.

From these changes, interest income yield was negatively affected as new loans replace paydowns on existing loans and variable rate loans reset to new current rates in these years. Partially offsetting lower yields were purchase accounting adjustments and recognized PPP fees that increased yield. Interest income increased on investment securities due to increased volume offsetting lower rates on these new purchases . An elevated amount of earning assets remained in short-term, low-rate money market type accounts during 2021; and there exists ample ability to borrow for liquidity needs. The ability to increase lending is contingent on the effects of COVID-19 on current and potential customers even with intense competition that has reduced new loans and may result in the payoff of existing loans, as economic conditions in the Corporation's marketplace eventually return to its previous stable state. As to funding costs, interest rates on alternative funding sources, such as the FHLB, and other market driver rates are factors in and influence the rates the Corporation and the local market pay for deposits. However, after COVID-19 Federal Open Market Committee (FOMC) actions, rates on transaction, savings and time deposits, were sharply reduced in order to match sharply reduced market earning asset yields. Interest expense decreased $5,307,000, or 43.4% due to lower rates offsetting higher volume on transaction deposits, certificate of deposit rate decreases and lower volume, and by less use of higher cost borrowings. The medical need to stop the spread of COVID-19 caused government officials to close or restrict the operations of many businesses and their workers, the resulting widespread liquidity allowed banks, including ACNB, to reduce deposit rates and still maintain relationships. Other responses were for the Federal Reserve to decrease rates to 0% to 0.25% and the massive injection of liquidity into markets. The resulting inflation is projected to cause reversal of course with rates increasing and liquidity withdrawn. ACNB's reaction will be to take advantage of mix changes in assets and delay funding cost increases to maintain or increase margins. The inability to do so could cause margins to decrease. Over the longer term, the Corporation continues its strategic direction to increase asset yield and interest income by means of loan growth and rebalancing the composition of earning assets to commercial loans.

The net interest spread for 2021 was 2.71% compared to 3.14% during 2020. Also comparing 2021 to 2020, the yield on interest earning assets decreased by 0.82% and the cost of interest bearing liabilities decreased by 0.39% due to less room to decrease. The net interest margin was 2.82% for 2021 and 3.35% for 2020. The net interest margin decrease included lower purchase accounting adjustments, down 11 basis point and higher PPP loan fees recognized, up 9 basis point, but was more impacted by sharp market rate decreases and less loans as a percentage in the earning asset mix and more lower yielding investments and liquidity assets. PPP fees recognized in 2021 were $5,627,000 and purchase accounting added another $3,158,000 to interest income. Both are finite in amount and duration, especially the PPP fees, and will not repeat at this magnitude in future periods. $995,000 in PPP deferred fees remain at December 31, 2021.

Average earning assets were $2,527,309,000 in 2021, an increase of $345,817,000, or 15.9%, from the average balance of $2,181,492,000 in 2020. Liquidity assets represented the largest increase in average assets in 2021, liquidity assets also represented the largest increase in 2020. Changes in the investment portfolio in both years were made to balance future liquidity needs (investments bought in low rate environment are difficult to use subsequently for liquidity when rates increase) and to collateralize eligible deposits. Average interest bearing liabilities were $1,819,682,000 in 2021, up from $1,581,101,000 in 2020. Average non-interest bearing demand deposits increased 19.1% in 2021, continuing the upward trend from 2020. All increases were a result of COVID-19 related slow economic activity that tend to concentrate increased liquidity in the banking system. On average, deposits (including non-interest bearing) were up 17.4%, while borrowings decreased by 11.1% due to principal paybacks. Lower-cost transaction and savings deposits increased in 2021. The decrease in time deposits was in part from existing customers moving to better liquidity available from transaction and savings deposits .

Net interest income totaled $17,350,000 for the quarter ended on December 31, 2021 compared to $18,902,000 for the same period in 2020. Trends discussed for the year accelerated in the fourth quarter causing the decrease in interest income to exceed the decrease in interest expense. Net interest margin was 2.59% in the fourth quarter of 2021 compared with 3.17% for the same quarter in 2020. PPP fees recognized in the fourth quarter of 2021 were $1,215,000 compared to $1,501,000 in the same period in 2020.

The rate/volume analysis detailed in Table 2 shows that the decrease in net interest income in 2021 was due to loan volume decreases and rate decreases in earning asset offsetting rate and volume decreases in funding cost. Earning asset yields decreased due to much lower market rates. Interest expense decreased due to lower deposit volumes and rates.

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

Table 2 — Rate/Volume Analysis

	2021 versus 2020		
	Due to Changes in		
In thousands	Volume	Rate	Total
INTEREST EARNING ASSETS			
Loans	$ (5,522)	$ (2,259)	$ (7,781)
Taxable securities	1,535	(1,119)	416
Tax-exempt securities	194	(122)	72
Total Securities	1,729	(1,241)	488
Other	619	(457)	162
Total	$ (3,174)	$ (3,957)	$ (7,131)
INTEREST BEARING LIABILITIES			
Interest bearing demand deposits	$ 244	$ (297)	$ (53)
Savings deposits	239	(782)	(543)
Time deposits	(305)	(4,406)	(4,711)
Short-term borrowings	(3)	(16)	(19)
Long-term borrowings	(292)	311	19
Total	(117)	(5,190)	(5,307)
Change in Net Interest Income	$ (3,057)	$ 1,233	$ (1,824)

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

Provision for Loan Losses

The provision for loan losses charged against earnings was $50,000 in 2021 and $9,140,000 in 2020. The provision for loan losses charged against earnings was $0 in the fourth quarter of 2021 compared with $1,040,000 in the same period in 2020. The determination of the provision was a result of the analysis of the adequacy of the allowance for loan losses calculation. The allowance for loan and lease losses generally does not include the loans acquired from the FCBI acquisition in 2020 or the New Windsor Bancorp, Inc. acquisition completed in 2017 (New Windsor), which were recorded at fair value as of the respective acquisition dates. Each quarter, the Corporation assesses risk in the loan portfolio and reserve required compared with the balance in the allowance for loan losses and the current evaluation factors. The 2021 provision was calculated to be much lower due to the intervening provisioning for the impact of the COVID-19 pandemic and the elimination of modifications made in prior periods because of COVID-19. This customer base includes businesses in the hospitality/tourism industry, restaurants and related businesses and lessors of commercial real estate properties. The qualitative factor for this event and a related factor on commercial and industrial loan collateral reduced. Otherwise, management concluded that the loan portfolio exhibited continued general stability in quantitative and qualitative measurements as shown in the tables and narrative in this Management's Discussion and Analysis and the Notes to the Consolidated Financial Statements. The long term effect of the ongoing COVID-19 event cannot be currently estimated other than the calculation that resulted in the above mentioned special qualitative factors. This same analysis concluded that the unallocated allowance should be a lower percentage range in 2021 compared with the prior periods due to increased experience with COVID-19 effects on loan quality.

For additional discussion of the provision and the loans associated therewith, please refer to the *Asset Quality* section of this Management's Discussion and Analysis. ACNB charges confirmed loan losses to the allowance and credits the allowance for recoveries of previous loan charge-offs. For 2021, the Corporation had net charge-offs of $1,243,000 as compared to net charge-offs of $2,749,000 for 2020. $2,000,000 in 2020 charge-offs were not COVID-19 related.

Other Income

Other income was $22,776,000 for the year ended December 31, 2021, a $2,686,000, or 13.4%, increase from 2020. The largest source of other income is commissions from insurance sales from ACNB Insurance Services, Inc., which increased 0.4% to $6,151,000 in 2021. The increase was due to increases in contingent commission volume, net of lower commission on recurring books of business due to economic, market and customer factors. A continuing risk to ACNB Insurance Services, Inc.’s revenue is nonrenewal of large commercial accounts and actions by insurance carriers to reduce commissions paid to agencies such as ACNB Insurance Services, Inc. Contingent, or extra, commissions were higher than the prior year due to specific claim activity at ACNB Insurance Services, Inc. and trends in the entire insurance marketplace in general in prior periods. Heightened pressure on commissions is expected to continue in this business line from insurance company actions.

There were no gains or losses on sales of securities in 2021 or 2020. A $439,000 net fair value gain was recognized on local bank and CRA-related equity securities during 2021 due to normal variations in market value on publicly-traded local bank stocks and increased market values for financial equities in particular, compared to a net fair value loss of $193,000 in 2020. Income from fiduciary, investment management and brokerage activities, which includes fees from both institutional and personal trust, investment management services, estate settlement and brokerage services, totaled $3,169,000 for the year ended December 31, 2021, as compared to $2,672,000 for 2020. At December 31, 2021, ACNB had total assets under administration of approximately $537,800,000, compared to $436,700,000 at the end of 2020. The revenue increase was a net result of higher fee volume from increased assets under management, lower sporadic estate settlement income which varies with specific activity, and increased fees on brokerage relationship transactions.

Service charges on deposit accounts increased 4.6% to $3,510,000, due to partial recovery from COVID-19 related slow economic conditions that had reduced fee generating activity. Fee volume varies with balance levels, account transaction activity, and customer-driven events such as overdrawing account balances. Further, various specific government regulations and policies effectively limit fee assessments related to deposit accounts, making future revenue levels uncertain. Revenue from ATM and debit card transactions increased 15.0% to $3,387,000 due to variations in volume and mix, including COVID-19 related increased trend for higher online volume. The longer term trend had been increases resulting from consumer desire to use more electronic delivery channels (Internet and mobile applications); however, regulations or legal challenges for large financial institutions may impact industry pricing for such transactions and fees in connection therewith in future periods, the effects of which cannot be currently quantified. Another challenge to this revenue source is the retail system-wide security breaches in the merchant base that are negatively affecting consumer confidence in the debit card channel. Income from sold mortgages, included in other income, increased by $1,062,000, or 45.6%, to $3,393,000 in 2021 as customer demand for refinancing in the low rate environment led to origination of mortgage types that were sold in the secondary market. This revenue source is subject to wide divergence due to national and local economic trends and market interest rates.

Other income was $5,633,000 for the quarter ended December 31, 2021 a $386,000 or 6.4% decrease from the same quarter in 2020. Included in the decrease was a lower gain on equity securities down $229,000, lower income from rate sensitive mortgage sale income, down $156,000, and lower insurance agency commissions down $180,000 due to specific customer actions. Continued increases included deposit service charges, trust and brokerage, and a one-time gain of $101,000 on bank owned life insurance.

Impairment Testing

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

Goodwill, which has an indefinite useful life, is evaluated for impairment annually and is evaluated for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset’s fair value. Accounting rules permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The goodwill impairment analysis involves comparing the reporting unit’s estimated fair value to its carrying value, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of goodwill assigned to the reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. Subsequent reversal of goodwill impairment losses is not permitted.

As noted above, commissions from insurance sales were up 0.4% in 2021, and ACNB Insurance Services, Inc.’s stand alone net income decreased 0.4% in 2021 compared to 2020. The testing for potential impairment involves methods that include both current and projected income amounts, and ACNB Insurance Services, Inc.’s fair value remained above the carrying value as of the most recent annual impairment test date. Thus, the results of the annual evaluations determined that there was no impairment of ACNB Insurance Services, Inc.’s goodwill, including the testing at October 1, 2021. However, declines in

ACNB Insurance Services, Inc.'s net income or changes in external market factors, including likely buyers that are assumed in impairment testing, may require an impairment charge to goodwill. The Corporation did not identify any impairment on the Bank's outstanding goodwill from its most recent qualitative assessments, which were completed as of December 31, 2021. Should it be determined in a future period that the goodwill has been impaired, then a charge to earnings will be recorded in the period that such a determination is made.

Other Expenses

Other expenses decreased 3.9% to $58,951,000 for the year ended December 31, 2021. The largest component of other expenses is salaries and employee benefits, which increased 4.4% in 2021 to $36,816,000 compared to $35,278,000 in 2020. The reasons for the increase in salaries and employee benefits expenses include the following:

- challenges and cost in replacing and maintaining customer-facing staff due to a competitive labor market;
- costs in back-office staff due to the marketplace high demand for employees;
- increased organic growth initiatives at ACNB Insurance Services, Inc.;
- maintaining staff in support functions and higher skilled mix of employees necessitated by regulations and growth;
- normal merit increases to employees and associated payroll taxes;
- increased expense on performance-based commissions, restricted stock grants and incentives, most of which is accrued in the fourth quarter by Board actions;
- market changes in actively managing employee benefit plan costs, including health insurance;
- varying costs of 401(k) plan and non-qualified retirement plan benefits; and,
- defined benefit pension expense due to plan investment performance and changes in discount rates. This expense increased by $505,000 in 2021 compared to 2020.

The Corporation reduced the benefit formula for the defined benefit pension plan effective January 1, 2010, in order to manage total benefit costs. Subsequently, the Corporation amended the defined benefit pension plan effective April 1, 2012, in that no employee hired after March 31, 2012, shall be eligible to participate in the pension plan and no inactive or former plan participant shall be eligible to again participate in the pension plan. The Corporation's overall pension plan investment strategy is to achieve a mix of investments to meet the long-term rate of return assumption and near-term pension obligations with a diversification of asset types, fund strategies, and fund managers. The mix of investments is adjusted periodically by retaining an advisory firm to recommend appropriate allocations after reviewing the Corporation's risk tolerance on contribution levels, funded status, plan expense, as well as any applicable regulatory requirements. However, the determination of future benefit expense is also dependent on the fair value of assets and the discount rate on the year-end measurement date, which in recent years has experienced fair value volatility and low discount rates. Although 2021 reflected an expense compared to the negative expense (income benefit) in 2020, the expense will again be an income benefit in 2022 due to higher discount rates at the latest measurement date, higher plan returns, and change in mortality tables utilized. The expense will vary in future years due to these variables. A pension provision in a public law known as MAP-21, enacted in July 2012, had no effect on the GAAP expense associated with the plan. In addition, the ACNB plan has maintained a well-funded status under ERISA rules.

Net occupancy expense was up 11.8% at $4,114,000 in 2021 and $3,681,000 in 2020. Equipment expense totaled $6,175,000 during 2021, as compared to $5,442,000 during 2020. Occupancy expense was up in 2021 due to higher first quarter seasonal expense, COVID-19 deferred maintenance in the fourth quarter catch up and fourth quarter set up cost for a temporary facility pending expected completion of a new office in 2022. Two community offices were closed in 2021 in the strategy of lower future occupancy expense (as well as other efficacies). Equipment expense increased due to tech equipment expenditures which vary due to specific projects. More significantly, increased costs were associated with the fourth quarter set up and new monthly fee for the core system conversion. Equipment expense is subject to ever-increasing technology demands and the core system conversion is a major step in the Corporation's Digital Transformation strategic planning. The 2021 core system conversion will change various expense components, which although budgeted for future periods cannot be fully estimated. Technology investments and training allowing staff to work from home continues to prove invaluable in keeping the Bank operational during the pandemic.

Professional services expense totaled $1,304,000 for 2021, as compared to $1,417,000 for 2020. The variation in expense from year to year included varying legal costs associated with problem loans and corporate governance, as well as the expense of heightened compliance monitoring on existing regulations and the expense of implementing new regulations. Other tax expense increased $364,000 or 30.1% in 2021 compared to 2020 due to higher Pennsylvania Bank Shares Tax. The Pennsylvania Bank Shares Tax is a stockholders' equity-based tax and is subject to increases based on state government parameters and the level of the stockholders' equity base that increased with the retained earnings equity increase and from the FCBI merger equity, and from higher rate. Supplies and postage expense decreased in 2021 compared to the prior year due to variation in the timing of necessary replenishments and with more use of electronic delivery.

Marketing and corporate relations expense decreased 48.8% from 2020 to 2021. Marketing expense varies with the timing and amount of planned advertising production and media expenditures, typically related to the promotion of certain in-market banking and trust products.

FDIC and regulatory expense for 2021 was $960,000, an increase of $344,000 from $616,000 in 2020 based on FDIC variations in asset base and rate in credits received in the prior year based on the FDIC fund reaching a particular funding ratio. This credit does not repeat in future periods but depends on the change in the funding ratio. FDIC expense varies with changes in net asset size, risk ratings, and FDIC derived assessment rates.

Intangible assets amortization decreased 7.9% due to bank acquisition calculation and ACNB Insurance Services, Inc. amortization on prior book purchases. Other operating expense increased $702,000 or 13.7% in 2021 as a result of a variety of increases including various delivery channels cost, corporate governance and risk management (including training) expenditures. In addition, the Bank elected to pay off a higher than market borrowing maturing in 2023 with a one-time penalty of $125,000 and separately accrued $103,000 for a one-time failure to hold garnished funds loss. The loss issue was later settled in 2022 at a 47% lesser amount.

Merger related expenses totaled $0 in 2021 compared to $5,965,000 in 2020, due to the acquisition and integration of FCBI in 2020. Merger expenses included legal and consulting expenses to effect the legal merger, investment banking and preparing purchase accounting adjustments. Integration expenses included severance payments to FCBI staff separated by the merger, consultant costs to integrate FCBI systems into ACNB's systems and the cost to terminate all FCBI core banking and electronic technology systems contracts. These costs were all necessary to provide requisite internal controls and cost effective core banking technology systems going forward. The costs of integrating all systems into one system was important to the merger viability and ongoing system integrity and quality.

Other Expenses was $17,457,000 for the quarter ended December 31, 2021 a $2,363,000 or 15.7% increase from the same quarter in 2020. Included in the increase was a $935,000 higher salary expense due to incentive compensation plan accruals approved based on achievement of plan goals, and other benefit expense including pension up $140,000. Occupancy expenses were up by $96,000 or 9.88% due to COVID-19 deferred maintenance in the fourth quarter catch up and fourth quarter set up cost for a temporary facility pending expected completion of a new office in 2022. Equipment expense was up $989,000 in the quarter, which included $895,000 one-time core conversion cost. ACNB projects ongoing replacement of legacy systems and new tech investments to increase this category (not including the one-time conversion cost) 20% to 25% annually as a part of the Digital Transformation strategic plan. Other expense categories included the one time borrowing early pay off penalty of $125,000 and the one-time $103,000 loss accrual discussed above; otherwise were net 3.6% higher on variations discussed for the year.

Provision for Income Taxes

ACNB recognized income taxes of $7,185,000, or 20.5% of pretax income, during 2021, as compared to $4,308,000, or 19.0%, during 2020. The variances from the federal statutory rate of 21% in the respective periods are generally due to tax-exempt income from investments in and loans to state and local units of government at below-market rates (an indirect form of taxation), investment in bank-owned life insurance, and investments in low-income housing partnerships (which qualify for federal tax credits).

The varying effective tax rate during 2021 and 2020 was a result of varying pretax income in relationship to expiration of tax credits, varying levels of tax-exempt investments and allocation between states. Pretax income decreased due to internal growth offset by merger and provision for loan loss expenses. At December 31, 2021, net deferred tax assets amounted to $4,514,000. Deferred tax assets are realizable primarily through future reversal of existing taxable temporary differences and future earnings. Management currently anticipates timing difference reversals will be adequate to utilize deferred tax assets. Accordingly, no valuation allowance has been established for deferred tax assets at December 31, 2021.

FINANCIAL CONDITION

Average earning assets increased in 2021 to $2,527,309,000, or by 15.9%, from $2,181,492,000 in 2020. Loans decreased from the forgiveness of PPP loans, sale of most new residential mortgages, and payoffs of loans in the residential mortgage consumer and government lending portfolios. Deposit increases were largely due to continued, slow economic conditions in the ongoing pandemic environment increasing the level of deposits held by existing and new customers. ACNB's overnight interest bearing deposits increased in 2021 on average, as more funds were allocated into liquid assets. On average, investments were increased in 2021 by 34.7% and in 2020 by 44.5% to provide a better return on excess liquidity and to properly collateralize public deposits. Average loans decreased 7.1% and increased 29.7% on average in 2021 and 2020, respectively. Loans were funded by increased deposits. Average deposits increased 17.4% in 2021 to $2,329,077,000 from $1,984,518,000 in 2020. Deposit growth was the result of increased balances due to the lack of economic activity in the COVID-19 environment. Average borrowings decreased in 2021 to $85,088,000 from $95,683,000 in 2020. Past years' term borrowings were in anticipation of continued loan demand and amounts were paid off from liquidity in 2021 and 2020.

Investment Securities

ACNB uses investment securities to generate interest and dividend income, manage interest rate risk, provide collateral for certain funding products, and provide liquidity. The changes in the securities portfolio in 2021 were mainly to provide proper collateral for public deposits and to provide better yields on excess deposits. Investing into investment security portfolio assets over the past several years was made more challenging due to the Federal Reserve Bank's program commonly called Quantitative Easing in which, by the Federal Reserve's open market purchases, the yields were maintained at a lower level than would otherwise be the case. The investment portfolio is comprised of U.S. Government agency, municipal, and corporate securities. These securities provide the appropriate characteristics with respect to credit quality, yield and maturity relative to the management of the overall balance sheet.

At December 31, 2021, the securities balance included a net unrealized loss on available for sale securities of $3,474,000, net of taxes, on amortized cost of $441,565,000 versus a net unrealized gain of $4,645,000, net of taxes, on amortized cost of $331,745,000 at December 31, 2020. The change in fair value of available for sale securities during 2021 was a result of the higher amount of investments in the available for sale portfolio and by a decrease in fair value from an increase in the U.S. Treasury yield curve rates (which varies daily with volatility) and the spread from this yield curve required by investors on the types of investment securities that ACNB owns. The Federal Reserve reinstituted their rate-decreasing Quantitative Easing program in the COVID-19 crisis; and after increasing the fed funds rate in mid-December 2015 through December 2018, the Federal Reserve decreased the target rate to 0% to 0.25% in the ongoing COVID-19 crisis; both actions causing the U.S. Treasury yield curve to decrease in 2020. However, the bond market sensed that government stimulus would lead to inflation and the yield curve increased in terms relevant to the investment securities in the Corporation's portfolio, leading to fair value decreases. However, fair values were volatile on any given day in 2021 and such volatility will continue. The changes in value are deemed to be related solely to changes in interest rates as the credit quality of the portfolio is high.

At December 31, 2021, the securities balance included held to maturity securities with an amortized cost of $6,454,000 and a fair value of $6,652,000, as compared to an amortized cost of $10,294,000 and a fair value of $10,768,000 at December 31, 2020. The held to maturity securities are U.S. government pass-through mortgage-backed securities in which the full payment of principal and interest is guaranteed; however, they were not classified as available for sale because these securities are generally used as required collateral for certain eligible government accounts or repurchase agreements. They are also held for possible pledging to access additional liquidity for banking subsidiary needs in the form of FHLB borrowings. No held to maturity securities were added in the past several years but the Corporation retains that option in certain rate environments.

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

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

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

Table 3 — Investment Securities

In thousands	2021	2020
AVAILABLE FOR SALE SECURITIES AT FAIR VALUE		
U.S. Government and agencies	**$ 245,041**	$ 183,603
Mortgage-backed securities	**133,496**	108,822
State and municipal	**44,611**	36,484
Corporate bonds	**13,950**	8,809
	$ 437,098	$ 337,718
HELD TO MATURITY SECURITIES AT AMORTIZED COST		
U.S. Government and agencies	**$ —**	$ —
Mortgage-backed securities	**6,454**	10,294
	$ 6,454	$ 10,294
EQUITY SECURITIES WITH READILY DETERMINABLE FAIR VALUES		
CRA Mutual Fund	**$ 1,036**	$ 1,065
Stock in other Banks	**1,573**	1,105
	$ 2,609	$ 2,170

Table 4 discloses investment securities at the scheduled maturity date at December 31, 2021. Many securities have call features that make their redemption possible before the stated maturity date.

Table 4 — Securities Maturity Schedule

	1 Year or Less		Over 1 - 5 Years		Over 5 - 10 Years		Over 10 Years or No Maturity		Total	
Dollars in thousands	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
U.S. Government and agencies	**$ 19,233**	**2.22 %**	**$ 89,323**	**1.78 %**	**$ 131,671**	**2.03 %**	**$ 9,236**	**3.31 %**	**$ 249,463**	**2.00 %**
Mortgage-backed securities	**84**	**2.44**	**3,894**	**2.83**	**23,270**	**2.20**	**112,903**	**1.68**	**140,151**	**1.80**
State and municipal	**839**	**4.52**	**685**	**1.57**	**7,118**	**1.71**	**35,905**	**2.44**	**44,547**	**2.35**
Corporate bonds	**—**	**—**	**1,530**	**5.81**	**10,328**	**4.27**	**2,000**	**5.25**	**13,858**	**4.58**
	$ 20,156	**2.32 %**	**$ 95,432**	**1.89 %**	**$ 172,387**	**2.17 %**	**$ 160,044**	**1.96 %**	**$ 448,019**	**2.04 %**

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

The Company continues to analyze increasing investments to increase interest income, despite the possible subsequent decrease in market value if rates increase further.

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

	1 Year or Less		Over 1 - 5 Years		Over 5 - 10 Years		Over 10 Years or No Maturity		Total	
Dollars in thousands	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
CRA Mutual Fund	$ —	— %	$ —	— %	$ —	— %	$ 1,036	— %	$ 1,036	— %
Stock in other Banks	—	—	—	—	—	—	1,573	—	1,573	—
	$ —	— %	$ —	— %	$ —	— %	$ 2,609	— %	$ 2,609	— %

Loans

Year over year, loans outstanding decreased by $169,357,000, or 10.3%, in 2021, as compared to 2020. The decrease is primarily attributable to the sale of most newly originated residential mortgages, PPP loan payoffs, and the payoff of loans in the residential mortgage, consumer, and government lending portfolios. Year over year, organic loan declines is primarily a result of active participation and subsequent payoffs in the Paycheck Protection Program (PPP) as well as the other factors mentioned above. In all periods, residential real estate lending and refinance activity was mostly sold to the secondary market and commercial loans were subject to refinancing to competition for different rates or terms. In the normal course of business, more payoffs could upcoming periods from either customers' cash reserves or refinancing at competing banks and markets, and currently lending actions are continuing while dealing with the ongoing work involved with the PPP Small Business Administration (SBA) guaranteed loans forgiveness processes. Both years demonstrated the focused efforts by management to lend to creditworthy borrowers subject to the Corporation's disciplined underwriting standards, despite generally slower local commercial activity and intense competition. Within the portfolio, growth was centered in increased commercial purpose loans/commercial construction loans, while local market residential mortgages declined. Also declining were loans to Pennsylvania school districts, municipalities (including townships) and essential purpose authorities, as a result the net commercial purpose segments decreased $102,861,000, or 9.2%, during 2021, spread among diverse categories that include farmland secured, loans to local government units, and other types of commercial lending. Residential real estate mortgage portfolio lending to local borrowers who preferred loan types that would not be sold into the secondary mortgage market, which includes smaller commercial purpose loans secured by the owner's home, decreased by $64,063,000, or 12.7%. Included in the mortgages were $114,751,000 in residential mortgage loans secured by junior liens or home equity loans, which are also in many cases junior liens. Junior liens inherently have more credit risk by virtue of the fact that another financial institution may have a senior security position in the case of foreclosure liquidation of collateral to extinguish the debt. Generally, foreclosure actions could become more prevalent if the real estate market weakens, property values deteriorate, or rates increase sharply. Included in commercial purpose were real estate construction loans down $3,902,000, or 7.2% in 2021, as a result of market demand and continued conservative underwriting on this loan type due to the category's credit attributes.

Included in the commercial, financial and agricultural category are loans to Pennsylvania school districts, municipalities (including townships) and essential purpose authorities. In most cases, these loans are backed by the general obligation of the local government body. In many cases, these loans are obtained through a bid process with other local and regional banks. The loans are mostly bank qualified for tax-free interest income treatment for federal income taxes. These loans totaled $62,823,000 in 2021, a decrease of 8.7% from $68,772,000 held at the end of 2020 due to early payoff in a down rate environment.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020, and provided over $2.0 trillion in emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the SBA to temporarily guarantee loans under a new 7(a) loan program called the PPP. As a qualified SBA lender, the Corporation was automatically authorized to originate PPP loans. As of December 31, 2021, the Corporation had an outstanding balance of $18,541,000 under the PPP program, net of repayments and forgiveness to date. As of December 31, 2021, the Corporation had originated approximately 2,217 loans in the amount of $223,036,703 under the PPP. Deferred fee income was approximately $9.5 million, before costs. The Corporation recognized $2,875,000 of PPP fee income during 2020, and $5,627,000 through December 31, 2021. The remaining amount will be recognized in future quarters as an adjustment of interest income yield.

Table 5 — Loan Portfolio

Loans at December 31 were as follows:

In thousands	2021	2020
Commercial, financial and agricultural	$ 179,567	$ 320,154
Real estate:		
Commercial	786,255	744,627
Construction	50,000	53,902
Residential	441,887	505,950
Consumer	10,718	13,151
Total Loans	$ 1,468,427	$ 1,637,784

The repricing range of the loan portfolio at December 31, 2021, and the amounts of loans with predetermined and fixed rates are presented in the tables below:

Table 6 — Loan Sensitivities

LOANS MATURING

In thousands	Less than 1 Year	1-5 Years	Over 5 Years	Total
Commercial, financial and agricultural	$ 36,290	$ 64,283	$ 78,994	$ 179,567
Real estate:				
Commercial	33,123	95,821	657,311	786,255
Construction	10,942	10,531	28,527	50,000
Residential	35,131	37,667	369,089	441,887
Total	$ 115,486	$ 208,302	$ 1,133,921	$ 1,457,709

LOANS BY REPRICING OPPORTUNITY

In thousands	Less than 1 Year	1-5 Years	Over 5 Years	Total
Commercial, financial and agricultural	$ 42,059	$ 70,335	$ 67,173	$ 179,567
Real estate:				
Commercial	112,977	427,836	245,442	786,255
Construction	20,846	14,625	14,529	50,000
Residential	54,487	115,795	271,605	441,887
Total	$ 230,369	$ 628,591	$ 598,749	$ 1,457,709
Loans with a fixed interest rate	$ 100,616	$ 595,807	$ 397,605	$ 1,094,028
Loans with a variable interest rate	129,753	32,784	201,144	363,681
Total	$ 230,369	$ 628,591	$ 598,749	$ 1,457,709

Most of the Corporation's lending activities are with customers located within the Bank's market area of southcentral Pennsylvania and northern Maryland area. This region currently and historically has lower unemployment rates than the U.S. as a whole. Included in commercial real estate loans are loans made to lessors of non-residential properties that total $396,795,000, or 27.0% of total loans, at December 31, 2021. These borrowers are geographically dispersed throughout ACNB's marketplace and are leasing commercial properties to a varied group of tenants including medical offices, retail space, and other commercial purpose facilities. Because of the varied nature of the tenants, in aggregate, management believes that these loans present an acceptable risk when compared to commercial loans in general. ACNB does not originate or hold Alt-A or subprime mortgages in its loan portfolio.

Asset Quality

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

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

The unemployment rate in ACNB's market area remained below the state and national average during 2021. Additionally, competitive lending rates and a less volatile local economy continued to provide some support to the economic conditions in the area. During 2021, continued low activity in new residential real estate development/construction and muted economic activity was a result of COVID-19, challenging the Corporation's marketplace commercial activity. Slower growth areas such as ACNB's marketplace generally do not retract in economic recessions as quickly and as low as other areas of the country, however the recovery from low economic cycles are also generally slower.

Non-performing assets include nonaccrual loans and restructured loans (troubled debt restructures or TDRs), accruing loans past due 90 days or more, and other foreclosed assets. The accrual of interest on residential mortgage and commercial loans (consisting of commercial and industrial, commercial real estate, and commercial real estate construction loan categories) is discontinued at the time the loan is 90 days past due unless the credit is well secured and in the process of collection. Consumer loans (consisting of home equity lines of credit and consumer loan categories) are typically charged off no later than 120 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. ACNB occasionally returns nonaccrual loans to performing status when the borrower brings the loan current and performs in accordance with contractual terms for a reasonable period of time. ACNB categorizes a loan as a TDR if it changes the terms of the loan, such as interest rate, repayment schedule or both, to terms that it otherwise would not have granted to a borrower, for economic or legal reasons related to the borrower's financial difficulties.

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

Table 7 — Non-Performing Assets

Dollars in thousands	**2021**	**2020**
Nonaccrual loans, including TDRs	**$ 5,489**	$ 7,041
Accruing loans 90 days past due	**730**	855
Total Non-Performing Loans	**6,219**	7,896
Foreclosed assets	**—**	—
Total Non-Performing Assets	**$ 6,219**	$ 7,896
Total Accruing Troubled Debt Restructurings	**$ 3,574**	$ 3,680
Ratios:		
Non-performing loans to total loans	**0.42 %**	0.48 %
Non-performing assets to total assets	**0.22 %**	0.31 %
Allowance for loan losses to non-performing loans	**306.05 %**	256.16 %

If interest due on all nonaccrual loans had been accrued at original contract rates, it is estimated that income before income taxes would have been greater by $462,000 in 2021 and $379,000 in 2020. The decrease in nonaccrual loans from 2020 to 2021 is discussed further below.

Impaired loans at December 31, 2021 and 2020, totaled $9,063,000 and $10,721,000, respectively. At December 31, 2021 and 2020, the Corporation had nonaccruing and accruing troubled debt restructurings of $3,637,000 and $3,807,000, respectively. $63,000 and $127,000, respectively, of the impaired loans were troubled debt restructured loans, which were also classified as nonaccrual. $3,574,000 and $3,680,000 of the impaired loans were accruing troubled debt restructured loans at December 31, 2021 and 2020, respectively. Loans whose terms are modified are classified as troubled debt restructurings if the borrowers have been granted concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve interest rates being granted below current market rates for the credit risk of the loan or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired. The related allowance for loan losses on all impaired loans totaled $1,455,000 and $1,382,000 at December 31, 2021 and 2020, respectively. The decrease in accruing troubled debt restructurings was a result of payment made in accordance with loan terms. The decrease in nonaccrual loans was a result of additional loans added to this category net of paydowns and payoffs made by the customers on these loans. Potential problem loans are defined as performing loans that have characteristics that cause management to have doubts as to the ability of the borrower to perform under present loan repayment terms and which may result in the reporting of these loans as non-performing loans in the future. Total additional potential problem loans approximated $1,725,000 at December 31, 2021, compared to $2,607,000 at December 31, 2020.

Foreclosed assets held for resale consist of the fair value of real estate acquired through foreclosure on real estate loan collateral or the acceptance of ownership of real estate in lieu of the foreclosure process. Fair values are based on appraisals that consider the sales prices of similar properties in the proximate vicinity less estimated selling costs. Foreclosed assets held for resale totaled $0 at December 31, 2021. One property was brought into foreclosed assets and subsequently sold in 2021 at a net immaterial gain. At December 31, 2021, all properties had been settled. The total of $0 in foreclosed real estate at December 31, 2020, represented that all properties held in that year had been settled by year end.

Allowance for Loan Losses

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

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

- adverse situations that may affect the borrower's ability to repay;
- the current estimated fair value of underlying collateral; and,
- prevailing market conditions.

If management determines a loan is not impaired, a specific reserve allocation is not required. Management then places the loan in a pool of loans with similar risk factors and assigns the general loss factor to determine the reserve. For homogeneous loan types, such as consumer and residential mortgage loans, management bases specific allocations on the average loss ratio for the previous three years for each specific loan pool. Additionally, management adjusts projected loss ratios for other factors, including the following:

- lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
- national, regional, and local economic and business conditions, as well as the condition of various market segments, including the impact on the value of underlying collateral for collateral dependent loans;
- nature and volume of the portfolio and terms of loans;
- experience, ability and depth of lending management and staff;
- volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications; and,
- existence and effect of any concentrations of credit and changes in the level of such concentrations.
- For 2020, a special allowance was developed to quantify a current expected incurred loss as a result of the COVID-19 crisis. The factor considered the loan mix effects of businesses likely to be harder hit by quarantine closure orders, the relative amount of COVID-19 related modifications requested to date, the estimated regional infection stage and geopolitical factors. A large unknown in this factor is the expected duration of the quarantine period.

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

- risk of imprecision in the specific and general reserve allocations;
- the perceived level of consumer and small business loans with demonstrated weaknesses for which it is not practicable to develop specific allocations;
- other potential exposure in the loan portfolio;
- variances in management's assessment of national, regional, and local economic conditions; and,
- other internal or external factors that management believes appropriate at that time, such as COVID-19.

The unallocated portion of the allowance is deemed to be appropriate as it reflects an uncertainty that remains in the loan portfolio; specifically reserves where the Corporation believes that tertiary losses are probable above the loss amount derived using appraisal-based loss estimation, where such additional loss estimates are in accordance with regulatory and GAAP guidance. Appraisal-based loss derivation does not fully develop the loss present in certain unique, ultimately bank-owned collateral. The Corporation has determined that the amount of provision in 2021 and the resulting allowance at December 31, 2021, are appropriate given the continuing level of risk in the loan portfolio. Further, management believes the unallocated allowance is appropriate, because even though the impaired loans added since 2020 demonstrate generally low risk due to adequate real estate collateral, the value of such collateral can decrease; plus, the growth in the loan portfolio is centered around commercial real estate which continues to have little increase in value and low liquidity. In addition, there are certain loans that, although they did not meet the criteria for impairment, management believes there was a strong possibility that these loans represented potential losses at December 31, 2021. The amount of the unallocated portion of the allowance decreased at December 31, 2021, as management concluded that the loan portfolio was better reflected in metrics used in the allocated evaluation. Otherwise the assessment concluded that credit quality was stable, COVID-19 related charge offs were relatively low and past due loans manageable.

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

Management bases the provision for loan losses, or lack of provision, on the overall analysis taking into account the methodology discussed above, which is consistent with recent years' improvement in the credit quality in the loan portfolio, but with decreased risk from the impact of the COVID-19 crisis. The acquisition of FCBI and New Windsor loans at fair value did not require a provision expense. The provision for 2021 was $50,000, compared to $9,140,000 for 2020. The increase in the allowance for loan losses as a percentage of total loans of 1.23% at December 31, 2020 to 1.30% at December 31, 2021 was primarily related to the decreased risk from the impact of the COVID-19 crisis and, even with the decrease in non-acquired loans, such reduction did not necessarily reduce the risk in the portfolio in direct proportion. More specifically, as total loans decreased from year-end 2020 and the provision expense decreased year over year, the allowance for loan losses was derived with data that most existing impaired credits were, in the opinion of management, adequately collateralized.

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

In June 2016, the FASB issued ASU 2016-13, *"Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments."* ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. Upon adoption, the change in this accounting guidance could result in an increase in the Corporation's allowance for loan losses and require the Corporation to record loan losses more rapidly. In October 2019, FASB voted to delay implementation of the CECL standard for certain companies, including those companies that qualify as a smaller reporting company under SEC rules until January 1, 2023. As a result ACNB will likely be able to defer implementation of the CECL standard for a period of time.

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

Table 8 — Analysis of Allowance for Loan Losses

Dollars in thousands	Years Ended December 31, 2021	2020
Beginning balance	**$ 20,226**	$ 13,835
Provision for loan losses	**50**	9,140
Loans charged-off:		
Commercial, financial and agricultural	**1,176**	2,107
Commercial real estate and construction	**—**	675
Residential mortgage	**22**	—
Consumer	**120**	205
Total Loans Charged-Off	**1,318**	2,987
Recoveries:		
Commercial, financial and agricultural	**43**	83
Commercial real estate and construction	**—**	96
Residential mortgage	**—**	30
Consumer	**32**	29
Total Recoveries	**75**	238
Net charge-offs	**1,243**	2,749
Ending balance	**$ 19,033**	$ 20,226
Ratios:		
Net charge-offs to average loans	**0.08 %**	0.16 %
Allowance for loan losses to total loans	**1.30 %**	1.23 %

Table 9 — Allocation of the Allowance for Loan Losses

	2021		2020	
Dollars in thousands	Amount	Percent of Loan Type to Total Loans	Amount	Percent of Loan Type to Total Loans
Commercial, financial and agricultural	**$ 3,176**	**12.2 %**	$ 4,037	19.5 %
Real estate:				
Commercial	**10,716**	**53.5**	9,569	45.5
Construction	**616**	**3.4**	503	3.3
Residential	**3,736**	**30.1**	4,088	30.9
Consumer	**408**	**0.7**	648	0.8
Unallocated	**381**	**N/A**	1,381	N/A
Total	**$ 19,033**	**100.0 %**	$ 20,226	100.0 %

The allowance for loan losses at December 31, 2021, was $19,033,000, or 1.30% of loans, as compared to $20,226,000, or 1.23% of loans, at December 31, 2020. The ratio of non-performing loans plus foreclosed assets to total assets was 0.22% at December 31, 2021, as compared to 0.31% at December 31, 2020.

Loans past due 90 days and still accruing were $730,000 and nonaccrual loans were $5,489,000 as of December 31, 2021. Loans past due 90 days and still accruing were $855,000 at December 31, 2020, while nonaccruals were $7,041,000.

The Corporation implemented numerous initiatives to support and protect employees and customers during the COVID-19 pandemic. These efforts continue with current information and guidelines related to ongoing COVID-19 initiatives. As of September 30, 2021, the Corporation no longer had any temporary loan modifications or deferrals for either commercial or consumer customers, furthering the positive trend of improvement in 2021. In comparison, at December 31, 2020, the

Corporation had outstanding approvals for temporary loan modifications and deferrals for 48 loans totaling $36,123,155 in principal balances, representing 2.2% of the total loan portfolio.

As to nonaccrual and substandard loans, management believes that adequate collateralization generally exists for these loans in accordance with GAAP. Each quarter, the Corporation assesses risk in the loan portfolio compared with the balance in the allowance for loan losses and the current evaluation factors.

Additional information on nonaccrual loans at December 31, 2021 and 2020, is as follows:

Dollars in thousands	Number of Credit Relationships	Balance	Current Specific Loss Allocations	Current Year Charge-Offs	Location	Originated
December 31, 2021						
Owner occupied commercial real estate	**7**	**$ 3,890**	**$ 599**	**$ —**	**In market**	**2008-2019**
Investment/rental residential real estate	**1**	**112**	**—**	**—**	**In market**	**2016**
Commercial and industrial	**3**	**1,487**	**856**	**970**	**In market**	**2008-2019**
Total	**11**	**$ 5,489**	**$ 1,455**	**$ 970**		
December 31, 2020						
Owner occupied commercial real estate	9	$ 4,601	$ 124	$ —	**In market**	**2008-2019**
Investment/rental residential real estate	3	410	34	—	**In market**	**2009-2016**
Commercial and industrial	2	2,030	1,224	—	**In market**	**2008-2019**
Total	14	$ 7,041	$ 1,382	$ —		

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

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

The Corporation had no impaired and nonaccrual loans included in commercial real estate construction at December 31, 2021.

Owner occupied commercial real estate includes seven unrelated loan relationships. A $938,000 relationship in food service that was performing when acquired in 2017 was added in the first quarter of 2020 after becoming 90 days past due early in the year, subsequent payments have been received . Collateral valuation resulted in no specific allocation. Another $802,000 merger-acquired loan relationship for a light manufacturing enterprise which was performing when acquired is working through bankruptcy and has no specific allocation. The other unrelated loans in this category have balances of less than $200,000 each, for which the real estate is collateral and is used in connection with a business enterprise that is suffering economic stress or is out of business. The loans in this category were originated between 2008 and 2019 and are business loans impacted by specific borrower credit situations. Most loans in this category are making principal payments. Collection efforts will continue unless it is deemed in the best interest of the Corporation to initiate foreclosure procedures.

A $1,311,000 (after partial payoff in the third quarter 2020) 2017-acquired commercial real estate participation loan was added in the fourth quarter of 2019 and has been currently assigned a $599,000 specific allocation at December 31, 2021.

Investment/rental residential real estate includes one loan relationships totaling $112,000 for which the real estate is collateral and the purpose of which is for speculation, rental, or other non-owner occupied uses; this relationship is making principal reductions.

A $1,795,000 commercial and industrial loan was added in the fourth quarter of 2020 after ceasing operations, with a current balance of $639,000. Liquidation is underway with a specific allocation of $21,000 after a $970,000 third quarter of 2021 charge-off. A related $371,000 owner occupied real estate loan is also in nonaccrual. An unrelated commercial and industrial loan with a balance of $13,000 (after numerous principal payments) at December 31, 2021, is currently continuing making payments. A third unrelated loan relationship was added in the first quarter of 2021 with an outstanding balance of $835,000 and a specific allocation of $835,000 due to concerns on collateralization and liens.

The Corporation utilizes a systematic review of its loan portfolio on a quarterly basis in order to determine the adequacy of the allowance for loan losses. In addition, ACNB engages the services of an outside independent loan review function and sets the timing and coverage of loan reviews during the year. The results of this independent loan review are included in the systematic review of the loan portfolio. The allowance for loan losses consists of a component for individual loan impairment, primarily based on the loan's collateral fair value and expected cash flow. A watch list of loans is identified for evaluation based on internal and external loan grading and reviews. Loans other than those determined to be impaired are grouped into pools of loans with similar credit risk characteristics. These loans are evaluated as groups with allocations made to the allowance based on historical loss experience adjusted for current trends in delinquencies, trends in underwriting and oversight, concentrations of credit, and general economic conditions within the Corporation's trading area. The provision expense was based on the loans discussed above, as well as current trends in the watch list and the local economy as a whole. The charge-offs discussed elsewhere in this Management's Discussion and Analysis create the recent loss history experience and result in the qualitative adjustment which, in turn, affects the calculation of losses inherent in the portfolio. The provision for loan losses of $50,000 for 2021 and the provision for loan losses of $9,140,000 for 2020, was a result of the measurement of the adequacy of the allowance for loan losses at each period. More specifically, with the manageable level of nonaccrual loans and substandard loans in 2021, the $50,000 provision addition to the allowance was necessary in proportion to loan portfolio growth, net charge-offs and estimated loss from nonaccrual and substandard loans in accordance with management's belief that adequate collateralization generally exists for these loans in accordance with GAAP. Each quarter, the Corporation assesses risk in the loan portfolio compared with the balance in the allowance for loan losses and the current evaluation factors.

Premises and Equipment

During the quarter ended June 30, 2016, a building was sold and the Corporation is leasing back a portion of that building. In connection with these transactions, a gain of $1,147,000 was realized, of which $447,000 was recognized in the quarter ended June 30, 2016 and the remaining $700,000 deferred for future recognition over the lease back term. A reduction of lease expense of $70,000 was recognized in 2021. A reduction of lease expense of $70,000 was recognized in 2020. ACNB valued six buildings acquired from New Windsor at $8,624,000 at July 1, 2017 and five properties acquired from FCBI at $7,514,000 at January 11, 2020. As a part of an ongoing delivery system optimization strategy, two community offices closed in the second quarter of 2021 resulted in a small net gain.

ACNB has committed for capital expenditures to build a new community office to replace three existing offices in close proximity as of December 31, 2021. The anticipated source of funds needed is from adequate general banking liquidity. Costs will vary due to inflation and supply chain disruptions.

Foreclosed Assets Held for Resale

The carrying value of real estate acquired through foreclosure was $0 with no properties at December 31, 2021, compared to $0 with no properties at December 31, 2020. One property added in 2021 was sold before year-end. All acquired properties are actively marketed. The Corporation could obtain and market additional foreclosed assets in 2022; however, the total amount and timing is currently not certain.

Other Assets

Other assets increased $3,756,000, or 15.7%, in 2021 compared to 2020, in part due to normal variations in a number of non earning asset accounts including deferred taxes and pension related assets.

Deposits

ACNB relies on deposits as the primary source of funds for lending activities. Average deposits increased 17.4%, or $344,559,000, during 2021, as compared to a 43.4% increase during 2020. Deposits acquired from FCBI totaled $374,058,000 on January 11, 2020. Deposits increased from increased balances in a broad base of accounts from lack of economic activity continuing from the COVID-19 event and effects. Otherwise, deposits vary between quarters mostly reflecting different levels held by local companies, government units and school districts during different times of the year. ACNB's deposit pricing function employs a disciplined pricing approach based upon alternative funding rates, but also strives to price deposits to be competitive with relevant local competition, including local government investment trusts, credit unions and larger regional banks. The 2021 average deposit increase was mainly due to liquidity continuing from the COVID-19 event, but also local individual and business depositors continued to be attracted to strategically designed stable community bank time and non-interest bearing products. During 2020 deposit growth mix experienced a shift to transaction accounts as customers put more value in liquidity and FDIC insurance. Products, such as money market accounts and interest-bearing transaction accounts that had suffered declines in past years, continued with recovered balances; however it is expected that a return to normal, lower balances could occur when the economy improves. Year-end 2020 to year-end 2021 recorded an increase in deposits of $240,864,000, or 11.0%, which was an indicator of continued liquidity in the customer base. With heightened competition, ACNB's ability to maintain and add to its deposit base may be impacted by the reluctance of consumers to accept community banks' lower rates (as compared to Internet-based competition) and by larger competition willing to pay above market rates to attract market share. If rates rise rapidly, or when the equity markets are high, funds could leave the Corporation or be priced higher to maintain deposits.

Table 10 — Time Deposits

Maturities of time deposits of $100,000 or more outstanding at December 31, 2021, are summarized as follows:

In thousands		
Three months or less	$	**57,875**
Over three through six months		**39,590**
Over six through twelve months		**52,209**
Over twelve months		**58,356**
Total	$	**208,030**

Borrowings

Short-term borrowings are comprised primarily of securities sold under agreements to repurchase and short-term borrowings from the FHLB. As of December 31, 2021, short-term borrowings were $35,202,000, a decrease of $3,262,000, or 8.5%, from the December 31, 2020, balance of $38,464,000. Agreements to repurchase accounts are within the commercial and local government customer base and have attributes similar to core deposits. Investment securities are pledged in sufficient amounts to collateralize these agreements. Compared to year-end 2020, repurchase agreement balances were down due to normal changes in the cash flow position of ACNB's commercial and local government customer base. There were no short-term FHLB borrowings, at December 31, 2021 and 2020. This account is used or not used due to daily fluctuation in deposits and loans. Short-term FHLB borrowings are used to even out funding from seasonal and daily fluctuations in the deposit base. Long-term borrowings consist of longer-term advances from the FHLB that provides term funding of loan assets, and Corporate borrowings that were acquired or originated in regards to the acquisitions and to refund or extend such Corporation borrowings. Long-term borrowings totaled $34,700,000 at December 31, 2021, versus $53,745,000 at December 31, 2020. The Corporation decreased long-term borrowings 35.4% from December 31, 2020. $22.7 million FHLB borrowings matured and were not renewed and another $5.0 million was paid early to utilize liquidity from earning assets and deposit changes. FHLB fixed-rate term advances were taken in prior years to mature from 2022 to 2023 to balance loan demand with deposit funding. A $4.6 million loan was paid off during 2021 on a borrowing from a local bank that had been made to fund the cash payment to stockholders of the New Windsor acquisition. ACNB Insurance Services, Inc. borrowed $1.0 million from a local bank at the end of the third quarter of 2018 to fund a book of business purchase. The balance of this loan was paid off during 2021. In addition, $5 million and $8.7 million was Corporation debt acquired from New Windsor and FCBI, respectively. The $5 million New Windsor acquired debt was paid off with proceeds from the subordinated debt proceeds during 2021. On March 30, 2021, ACNB Corporation issued $15,000,000 in Fixed-to-Floating Rate subordinated debt due March 31, 2031. The terms are five year 4% fixed rate and thereafter callable at 100% or a floating rate. The potential use of the net proceeds include retiring outstanding debt of the Corporation, repurchasing issued and outstanding shares of the Corporation, supporting general corporate purposes, underwriting growth opportunities, creating an interest reserve for the notes issued, and downstreaming proceeds to ACNB Bank to continue to meet regulatory capital requirements, increase the regulatory lending ability of the Bank, and support the Bank's organic growth initiatives. Further borrowings will be used when necessary for a variety of risk management and funding purposes. Please refer to the *Liquidity* discussion below for more information on the Corporation's ability to borrow.

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

In thousands		2021		2020
Short-term borrowings outstanding at end of year:				
FHLB overnight advance	$	**—**	$	—
Securities sold under repurchase agreements		**35,202**		38,464
Total	**$**	**35,202**	$	38,464

Dollars in thousands		2021		2020
Average interest rate at year-end		**0.12 %**		0.12 %
Maximum amount outstanding at any month-end	**$**	**45,681**	$	52,721
Average amount outstanding	**$**	**35,153**	$	37,185
Weighted average interest rate		**0.11 %**		0.12 %

Capital

ACNB's capital management strategies have been developed to provide an appropriate rate of return, in the opinion of management, to stockholders, while maintaining its "well capitalized" regulatory position in relationship to its risk exposure. Total stockholders' equity was $272,114,000 at December 31, 2021, compared to $257,972,000 at December 31, 2020. Stockholders' equity increased during 2021, primarily due to retained earnings from 2021 earnings net of dividends paid to date, net of the increase in accumulated other comprehensive loss from change in investment market value and net of share repurchases.

The acquisition of New Windsor resulted in 938,360 new ACNB shares of common stock issued to the New Windsor stockholders valued at $28,620,000 in 2017. The acquisition of FCBI resulted in 1,590,547 new ACNB shares of common stock issued to the FCBI stockholders valued at $57,721,000.

A $3,907,000 increase in accumulated other comprehensive loss was a result of a net decrease in the fair value of the investment portfolio and changes in the net funded position of the defined benefit pension plan. Other comprehensive income or loss is mainly caused by fixed-rate investment securities gaining or losing value in different interest rate environments and changes in the net funded position of the defined benefit pension plan.

The primary source of additional capital to ACNB is earnings retention, which represents net income less dividends declared. During 2021, ACNB retained $18,866,000, or 67.8%, of its net income, as compared to $9,709,000, or 52.8%, in 2020.

ACNB Corporation has a Dividend Reinvestment and Stock Purchase Plan that provides registered holders of ACNB Corporation common stock with a convenient way to purchase additional shares of common stock by permitting participants in the plan to automatically reinvest cash dividends on all or a portion of the shares owned and to make quarterly voluntary cash payments under the terms of the plan. Participation in the plan is voluntary, and there are eligibility requirements to participate in the plan. Cumulative to December 31, 2021, 214,495 shares were issued under this plan. Proceeds are used for general corporate purposes.

ACNB Corporation has a Restricted Stock plan available to selected officers and employees of the Bank, to advance the best interest of ACNB Corporation and its stockholders. The plan provides those persons who have responsibility for its growth with additional incentive by allowing them to acquire an ownership in ACNB Corporation and thereby encouraging them to contribute to the success of the Corporation. As of December 31, 2021, there were 25,945 shares of common stock granted as restricted stock awards to employees of the subsidiary bank. The restricted stock plan expired by its own terms after 10 years on February 24, 2019, and no further shares may be issued under the plan. Proceeds are used for general corporate purposes.

On May 1, 2018, stockholders approved and ratified the ACNB Corporation 2018 Omnibus Stock Incentive Plan, effective as of March 20, 2018, in which awards shall not exceed, in the aggregate, 400,000 shares of common stock, plus any shares that are authorized, but not issued, under the 2009 Restricted Stock Plan. As of December 31, 2021, 35,587 shares were issued under this plan and 538,468 shares were available for grant. Proceeds are used for general corporate purposes.

On February 25, 2021, the Corporation announced that the Board of Directors approved on February 23, 2021, a plan to repurchase, in open market and privately negotiated transactions, up to 261,000, or approximately 3%, of the outstanding shares of the Corporation's common stock. This new stock repurchase program replaces and supersedes any and all earlier announced repurchase plans. There were 54,071 shares repurchased under the plan as of December 31, 2021.

On September 30, 2021, the Corporation entered into an issuer stock repurchase agreement with an independent third-party broker under which the broker is authorized to repurchased the Corporation's common stock on behalf of the Corporation during the period from the close of business on September 30, 2021 through March 31, 2022, subject to certain price, market and volume constraints specified in the agreement. The agreement was established in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (Exchange Act). The shares will be purchased pursuant to the Corporation's previously announced stock repurchase program and in a manner consistent with applicable laws and regulations, including the provisions of the safe harbor contained in Rule 10b-18 under the Exchange Act.

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

Quantitative measures established by regulation to ensure capital adequacy require ACNB to maintain minimum amounts and ratios of total and Tier 1 capital to average assets. Management believes, as of December 31, 2021 and 2020, that ACNB's banking subsidiary met all minimum capital adequacy requirements to which it is subject and is categorized as "well capitalized" for regulatory purposes. There are no subsequent conditions or events that management believes have changed the banking subsidiary's category.

Regulatory Capital Changes

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

- a minimum ratio of common Tier 1 capital to risk-weighted assets of 4.5%;
- a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%;
- a minimum ratio of total capital to risk-weighted assets of 8.0%; and,
- a minimum leverage ratio of 4.0%.

In addition, the final rules establish a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations began on January 1, 2016.

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

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

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

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

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

The Corporation calculated regulatory capital ratios as of December 31, 2021, and confirmed no material impact on the capital, operations, liquidity and earnings of the Corporation and the banking subsidiary from the changes in the regulations.

Table 11 — Risk-Based Capital

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

In 2019, the federal banking agencies issued a final rule to provide an optional simplified measure of capital adequacy for qualifying community banking organizations, including the community bank leverage ratio (CBLR) framework. Generally, under the CBLR framework, qualifying community banking organizations with total assets of less than $10 billion, and limited amounts of off-balance sheet exposures and trading assets and liabilities, may elect whether to be subject to the CBLR framework if they have a CBLR of greater than 9% (subsequently reduced to 8% as a COVID-19 relief measure). Qualifying community banking organizations that elect to be subject to the CBLR framework and continue to meet all requirements under the framework would not be subject to risk-based or other leverage capital requirements and, in the case of an insured depository institution, would be considered to have met the well capitalized ratio requirements for purposes of the FDIC's Prompt Corrective Action framework. The CBLR framework was available for banks to use in their March 31, 2020 Call Report. The Corporation has performed changes to capital adequacy and reporting requirements within the quarterly Call Report, and it opted out of the CBLR framework on December 31, 2021.

The banking subsidiary's capital ratios are as follows:

	2021	2020	To be Well Capitalized under Prompt Corrective Action Regulations
Tier 1 leverage ratio (to average assets)	**8.81 %**	9.01 %	5.00 %
Common Tier 1 capital (to risk-weighted assets)	**16.32 %**	13.86 %	6.50 %
Tier 1 risk-based capital ratio (to risk-weighted assets)	**16.32 %**	13.86 %	8.00 %
Total risk-based capital ratio	**17.57 %**	15.10 %	10.00 %

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

Liquidity

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

ACNB's funds are available from a variety of sources, including assets that are readily convertible such as interest bearing deposits with banks, maturities and repayments from the securities portfolio, scheduled repayments of loans receivable, the core deposit base, and the ability to borrow from the FHLB. At December 31, 2021, ACNB's banking subsidiary could borrow approximately $793,135,000 from the FHLB of which $762,885,000 was available. Because of various restrictions and requirements on utilizing the available balance, ACNB considers $560,000,000 to be the practicable additional borrowing capacity, which is considered to be sufficient for operational needs. The FHLB system is self-capitalizing, member-owned, and its member banks' stock is not publicly traded. ACNB creates its borrowing capacity with the FHLB by granting a security interest in certain loan assets with requisite credit quality. ACNB has reviewed information on the FHLB system and the FHLB of Pittsburgh, and has concluded that they have the capacity and intent to continue to provide both operational and contingency liquidity. The FHLB of Pittsburgh instituted a requirement that a member's investment securities must be moved into a safekeeping account under FHLB control to be considered in the calculation of maximum borrowing capacity. The Corporation currently has securities in safekeeping at the FHLB of Pittsburgh; however, the safekeeping account is under the Corporation's control. As better contingent liquidity is maintained by keeping the securities under the Corporation's control, the Corporation has not moved the securities which, in effect, lowered the Corporation's maximum borrowing capacity. However, there is no practical reduction in borrowing capacity as the securities can be moved into the FHLB-controlled account promptly if they are needed for borrowing purposes.

Another source of liquidity is securities sold under repurchase agreements to customers of ACNB's banking subsidiary totaling $35,202,000 and $38,464,000 at December 31, 2021 and 2020, respectively. These agreements vary in balance according to the cash flow needs of customers and competing accounts at other financial organizations.

The liquidity of the parent company also represents an important aspect of liquidity management. The parent company's cash outflows consist principally of dividends to stockholders and corporate expenses. The main source of funding for the parent company is the dividends it receives from its subsidiaries. Federal and state banking regulations place certain legal restrictions and other practicable safety and soundness restrictions on dividends paid to the parent company from the subsidiary bank. For a discussion of ACNB's dividend restrictions, please refer to Item 1 — "Business" and Note J — "Regulatory Restrictions on Dividends" in the Notes to Consolidated Financial Statements.

ACNB manages liquidity by monitoring projected cash inflows and outflows on a daily basis, and believes it has sufficient funding sources to maintain sufficient liquidity under varying degrees of business conditions for liquidity and capital resource requirements for all material short and long term cash requirements from known contractual and other obligations.

On March 30, 2021, the Corporation issued $15 million of subordinated debt in order to pay off existing higher rate debt, to potentially repurchase ACNB common stock and to use for inorganic growth opportunities. Otherwise, the $15 million of subordinated debt qualifies as Tier 2 capital at the Holding Company level, but can be transferred to the Bank where it qualifies as Tier 1 Capital. The debt has a 4.00% fixed-to-floating rate and a stated maturity of March 31, 2031. The debt is redeemable by the Corporation at its option, in whole or in part, on or after March 30, 2026, and at any time upon occurrences of certain unlikely events such as receivership insolvency or liquidation of ACNB or ACNB Bank.

Off-Balance Sheet Arrangements

The Corporation is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and, to a lesser extent, standby letters of credit. At December 31, 2021, the Corporation had unfunded outstanding commitments to extend credit of $365,320,000 and outstanding standby letters of credit of $9,014,000. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. Please refer to Note O — "Financial Instruments with Off-balance Sheet Risk" in the Notes to Consolidated Financial Statements for a discussion of the nature, business purpose, and importance of the Corporation's off-balance sheet arrangements.

New Accounting Pronouncements

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

Acquisition of Frederick County Bancorp, Inc.

ACNB Corporation, the parent financial holding company of ACNB Bank, a Pennsylvania state-chartered, FDIC-insured community bank, headquartered in Gettysburg, Pennsylvania, completed the acquisition of Frederick County Bancorp, Inc. (FCBI) and its wholly-owned subsidiary, Frederick County Bank, headquartered in Frederick, Maryland, effective January 11, 2020. FCBI was merged with and into a wholly-owned subsidiary of ACNB Corporation immediately followed by the merger of Frederick County Bank with and into ACNB Bank. ACNB Bank operates in the Frederick County, Maryland, market as "FCB Bank, A Division of ACNB Bank".

Under the terms of the Reorganization Agreement, FCBI stockholders received 0.9900 share of ACNB Corporation common stock for each share of FCBI common stock that they owned as of the closing date. As a result, ACNB Corporation issued 1,590,547 shares of its common stock and cash in exchange for fractional shares based upon $36.43, the determined market share price of ACNB Corporation common stock in accordance with the Reorganization Agreement.

With the combination of the two organizations, ACNB Corporation, on a consolidated basis, has approximately $2.8 billion in assets, $2.4 billion in deposits, and $1.5 billion in loans with 31 community banking offices and three loan offices located in the counties of Adams, Cumberland, Franklin, Lancaster and York in Pennsylvania and the counties of Baltimore, Carroll and Frederick in Maryland.

ITEM 7A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Not required for smaller reporting companies.

ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
ACNB Corporation and Subsidiaries

Opinion on the Financial Statements
We have audited the accompanying statements of condition of ACNB Corporation and Subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated December 31, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters
The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses—Qualitative Factors
The allowance for loan losses as of December 31, 2021 was $19.0 million. As described in Notes A and D to the consolidated financial statements, the allowance for loan losses is established through a provision for loan losses and represents an amount which, in management's judgement, will be adequate to absorb losses on existing loans. The allowance consists of specific and general components in the amounts of $1.5 million and $17.5 million, respectively. Specific reserves estimate potential losses on identified impaired loans with uncertain collectability of principal and interest. 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. The evaluation of the qualitative factors requires a significant amount of judgement by management and involves a high degree of subjectivity.

We identified the qualitative factor component of the allowance for loan losses as a critical audit matter as auditing the underlying qualitative factors required significant auditor judgment as amounts determined by management rely on analysis that is highly subjective and includes significant estimation uncertainty.

Our audit procedures related to the qualitative factors included the following, among others:

- We obtained an understanding of the relevant controls related to management’s assessment and review of the qualitative factors, and tested such controls for design and operating effectiveness, including controls over management’s establishment, review and approval of the qualitative factors and the data used in determining the qualitative factors.

- We obtained an understanding of how management developed the estimates and related assumptions, including:

  – Testing completeness and accuracy of key data inputs used in forming assumptions or calculations and testing the reliability of the underlying data on which these factors are based by comparing information to source documents and external information sources.

  – Evaluating the reasonableness of the qualitative factor established by management as compared to the underlying internal or external information sources.

We have served as the Company’s auditor since 2018.

/s/ RSM US LLP

Philadelphia, Pennsylvania
March 14, 2022

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CONDITION

Dollars in thousands, except per share data	December 31, 2021	2020
ASSETS		
Cash and due from banks	**$ 14,912**	$ 23,739
Interest bearing deposits with banks	**695,219**	375,613
Total Cash and Cash Equivalents	**710,131**	399,352
Equity securities with readily determinable fair values	**2,609**	2,170
Debt securities available for sale	**437,098**	337,718
Securities held to maturity, fair value $6,652; $10,768	**6,454**	10,294
Loans held for sale	**2,193**	11,034
Loans, net of allowance for loan losses $19,033; $20,226	**1,449,394**	1,617,558
Assets held for sale	**1,093**	—
Premises and equipment	**30,980**	33,013
Right of use assets	**3,270**	3,145
Restricted investment in bank stocks	**2,303**	2,942
Investment in bank-owned life insurance	**64,261**	63,401
Investments in low-income housing partnerships	**1,254**	1,380
Goodwill	**42,108**	42,108
Intangible assets	**6,101**	7,265
Other assets	**27,738**	23,982
Total Assets	**$ 2,786,987**	$ 2,555,362
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	**$ 623,360**	$ 556,666
Interest bearing	**1,803,029**	1,628,859
Total Deposits	**2,426,389**	2,185,525
Short-term borrowings	**35,202**	38,464
Long-term borrowings	**34,700**	53,745
Lease liabilities	**3,270**	3,138
Other liabilities	**15,312**	16,518
Total Liabilities	**2,514,873**	2,297,390
STOCKHOLDERS' EQUITY		
Preferred stock, $2.50 par value; 20,000,000 shares authorized; no shares outstanding	**—**	—
Common stock, $2.50 par value; 20,000,000 shares authorized; 8,795,877 and 8,771,993 shares issued; 8,679,206 and 8,709,393 shares outstanding	**21,978**	21,918
Treasury stock, at cost (116,671 and 62,600 shares)	**(2,245)**	(728)
Additional paid-in capital	**94,688**	94,048
Retained earnings	**167,238**	148,372
Accumulated other comprehensive loss	**(9,545)**	(5,638)
Total Stockholders' Equity	**272,114**	257,972
Total Liabilities and Stockholders' Equity	**$ 2,786,987**	$ 2,555,362

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

Dollars in thousands, except per share data	Years Ended December 31, 2021	2020
INTEREST AND DIVIDEND INCOME		
Loans, including fees	**$ 71,186**	$ 78,967
Securities:		
Taxable	**5,423**	4,927
Tax-exempt	**543**	470
Dividends	**230**	311
Other	**777**	615
Total Interest Income	**78,159**	85,290
INTEREST EXPENSE		
Deposits	**5,012**	10,318
Short-term borrowings	**39**	59
Long-term borrowings	**1,864**	1,845
Total Interest Expense	**6,915**	12,222
Net Interest Income	**71,244**	73,068
PROVISION FOR LOAN LOSSES	**50**	9,140
Net Interest Income after Provision for Loan Losses	**71,194**	63,928
OTHER INCOME		
Commissions from insurance sales	**6,151**	6,125
Service charges on deposit accounts	**3,510**	3,355
Income from fiduciary, investment management and brokerage activities	**3,169**	2,672
Income from mortgage loans held for sale	**3,393**	2,331
Earnings on investment in bank-owned life insurance	**1,408**	1,442
Gain on life insurance proceeds	**101**	—
Net gains (losses) on equity securities	**439**	(193)
Service charges on ATM and debit card transactions	**3,387**	2,946
Other	**1,218**	1,412
Total Other Income	**22,776**	20,090
OTHER EXPENSES		
Salaries and employee benefits	**36,816**	35,278
Net occupancy	**4,114**	3,681
Equipment	**6,175**	5,442
Other tax	**1,572**	1,208
Professional services	**1,304**	1,417
Supplies and postage	**718**	745
Marketing and corporate relations	**287**	561
FDIC and regulatory	**960**	616
Merger related expenses	**—**	5,965
Intangible assets amortization	**1,164**	1,264
Other operating	**5,841**	5,139
Total Other Expenses	**58,951**	61,316
Income Before Income Taxes	**35,019**	22,702
PROVISION FOR INCOME TAXES	**7,185**	4,308
Net Income	**$ 27,834**	$ 18,394
PER SHARE DATA		
Basic earnings	**$ 3.19**	$ 2.13
Cash dividends declared	**$ 1.03**	$ 1.00

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In thousands	Years Ended December 31, 2021	2020
NET INCOME	**$ 27,834**	$ 18,394
OTHER COMPREHENSIVE INCOME (LOSS)		
SECURITIES		
Unrealized (losses) gains arising during the period, net of income taxes of $(2,321) and $960, respectively	**(8,119)**	3,384
Reclassification adjustment for net gains included in net income, net of income taxes of $ — and $—, respectively (A) (C)	**—**	—
PENSION		
Amortization of pension net loss, transition liability, and prior service cost, net of income taxes of $280 and $151, respectively (B) (C)	**975**	524
Unrecognized net loss, net of income taxes of $944 and $(1,055), respectively (C)	**3,237**	(3,693)
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	**(3,907)**	215
TOTAL COMPREHENSIVE INCOME	**$ 23,927**	$ 18,609

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

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

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

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2021 and 2020

Dollars in thousands	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE—January 1, 2020	$ 17,855	$ (728)	$ 39,579	$ 138,663	$ (5,853)	$ 189,516
Net income	—	—	—	18,394	—	18,394
Other comprehensive income, net of taxes	—	—	—	—	215	215
Common stock shares issued (1,610,562 shares)	4,014	—	53,759	—	—	57,773
Restricted stock grants (19,472 shares)	49	—	282	—	—	331
Restricted stock compensation expense	—	—	428	—	—	428
Cash dividends declared	—	—	—	(8,685)	—	(8,685)
BALANCE—December 31, 2020	21,918	(728)	94,048	148,372	(5,638)	257,972
Net income	**—**	**—**	**—**	**27,834**	**—**	**27,834**
Other comprehensive loss, net of taxes	**—**	**—**	**—**	**—**	**(3,907)**	**(3,907)**
Common stock shares issued (23,884 shares)	**60**	**—**	**278**	**—**	**—**	**338**
Repurchased shares (54,071 shares)	**—**	**(1,517)**	**—**	**—**	**—**	**(1,517)**
Restricted stock compensation expense	**—**	**—**	**362**	**—**	**—**	**362**
Cash dividends declared	**—**	**—**	**—**	**(8,968)**	**—**	**(8,968)**
BALANCE—December 31, 2021	**$ 21,978**	**$ (2,245)**	**$ 94,688**	**$ 167,238**	**$ (9,545)**	**$ 272,114**

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

ACNB CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands	Years Ended December 31, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 27,834**	$ 18,394
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of loans originated for sale	**(3,393)**	(2,331)
Gain on sales of foreclosed assets held for resale, including writedowns	**(88)**	(55)
Loss on sale of premises and equipment	**26**	—
Earnings on investment in bank-owned life insurance	**(1,408)**	(1,442)
(Gain) loss on equity securities	**(439)**	193
Gain on life insurance proceeds	**(101)**	—
Restricted stock compensation expense	**362**	428
Depreciation and amortization	**3,441**	3,651
Provision for loan losses	**50**	9,140
Net amortization of investment securities premiums	**1,626**	931
Decrease (increase) in accrued interest receivable	**1,430**	(1,624)
Decrease in accrued interest payable	**(1,325)**	(1,381)
Mortgage loans originated for sale	**(104,633)**	(139,055)
Proceeds from sales of loans originated for sale	**116,867**	136,808
(Increase) decrease in other assets	**(4,324)**	7,270
Decrease (increase) in deferred tax expense	**236**	(1,038)
Increase (decrease) in other liabilities	**5,965**	(4,419)
Net Cash Provided by Operating Activities	**42,126**	25,470
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investment securities held to maturity	**3,840**	8,940
Proceeds from maturities of investment securities available for sale	**105,340**	96,474
Purchase of investment securities available for sale	**(216,786)**	(218,032)
Redemption of restricted investment in bank stocks	**639**	1,843
Net decrease (increase) in loans	**168,013**	(38,755)
Purchase of bank-owned life insurance	—	(400)
Bank acquisition, net of cash acquired	—	35,262
Insurance book- acquisition	—	(542)
Proceeds from life insurance death benefits	**649**	—
Capital expenditures	**(1,576)**	(1,048)
Proceeds from sale of premises and equipment	**213**	392
Proceeds from sale of foreclosed real estate	**189**	1,018
Net Cash Provided by (Used in) Investing Activities	**60,521**	(114,848)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits	**66,694**	138,797
Net increase in time certificates of deposits and interest bearing deposits	**174,170**	260,410
Net (decrease) increase in short-term borrowings	**(3,262)**	5,029
Proceeds from long-term borrowings	**15,000**	—
Repayments on long-term borrowings	**(34,045)**	(22,001)
Dividends paid	**(8,968)**	(8,685)
Common stock repurchased	**(1,517)**	—
Common stock issued	**60**	824
Net Cash Provided by Financing Activities	**208,132**	374,374
Net Increase in Cash and Cash Equivalents	**310,779**	284,996
CASH AND CASH EQUIVALENTS — BEGINNING	**399,352**	114,356
CASH AND CASH EQUIVALENTS — ENDING	**$ 710,131**	$ 399,352
Supplemental disclosures of cash flow information		
Interest paid	**$ 8,240**	$ 13,603
Income taxes paid	**$ 7,400**	$ 5,900
Loans transferred to foreclosed assets held for resale and other foreclosed transactions	**$ 101**	$ 135
Transactions related to acquisition		
Increase in assets and liabilities:		
Securities	$ —	$ (22,167)
Loans	—	(333,362)
Premises and equipment	—	(10,959)
Investment in bank-owned life insurance	—	(10,896)
Restricted investments in bank stocks	—	(1,141)
Foreclosed assets held for resale	—	(464)
Goodwill	—	(22,528)
Core deposit intangible assets	—	(3,560)
Other assets	—	(3,086)
Non-interest bearing deposits	—	103,492
Interest bearing deposits	—	270,566
Trust preferred debentures	—	6,000
Long term borrowings	—	3,450
Other liabilities	—	2,637
Common shares issued	—	57,280

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

ACNB CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

ACNB Corporation (the Corporation or ACNB), headquartered in Gettysburg, Pennsylvania, provides banking, insurance, and financial services to businesses and consumers through its wholly-owned subsidiaries, ACNB Bank (Bank) and ACNB Insurance Services, Inc., formerly Russell Insurance Group, Inc. The Bank engages in full-service commercial and consumer banking and wealth management services, including trust and retail brokerage, through its thirty-one community banking offices, including twenty community banking office locations in Adams, Cumberland, Franklin, and York Counties, Pennsylvania, and eleven community banking office locations in Carroll and Frederick Counties, Maryland. There are also loan production offices situated in Lancaster and York, Pennsylvania, and Hunt Valley, Maryland.

ACNB Insurance Services, Inc. is a full-service insurance agency based in Westminster, Maryland, with additional locations in Germantown and Jarrettsville, Maryland, and Gettysburg, Pennsylvania. The agency offers a broad range of property, casualty, health, life and disability insurance to both individual and commercial clients.

On January 11, 2020, ACNB completed the acquisition of Frederick County Bancorp, Inc. (FCBI), a bank holding company based in Frederick, Maryland. In addition, Frederick County Bank, a Maryland state-chartered bank and FCBI’s wholly-owned subsidiary, merged with and into ACNB Bank. ACNB Bank now operates in the Frederick County, Maryland, market as “FCB Bank, A Division of ACNB Bank” and serves its marketplace with banking and wealth management services via the network of five community banking offices located in Frederick County, Maryland. Further discussion of the risk factors involved with the merger of FCBI into the Corporation can be found in Part I, Item 1A–Risk Factors.

On July 1, 2017, ACNB completed its acquisition of New Windsor Bancorp, Inc. (New Windsor) of Taneytown, Maryland. At the effective time of the acquisition, New Windsor 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” and serves its marketplace with banking and wealth management services via the network of six community banking offices located in Carroll County, Maryland.

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

Basis of Financial Statements

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

Assets held by the Corporation’s Wealth Management Department, including trust and retail brokerage, in an agency, fiduciary or retail brokerage capacity for its customers are excluded from the consolidated financial statements since they do not constitute assets of the Corporation. Assets held by the Wealth Management Department amounted to $537,800,000 and $436,700,000 at December 31, 2021 and 2020, respectively. Income from fiduciary, investment management and brokerage activities are included in other income.

The Corporation has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2021, 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.

Use of Estimates

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the determination of other than temporary impairment on securities, and the potential impairment of goodwill.

Significant Group Concentrations of Credit Risk

Most of the Corporation’s activities are with customers located within southcentral Pennsylvania and northern Maryland. Note C discusses the types of securities in which the Corporation invests. Note D discusses the types of lending in which the Corporation engages. Included in commercial real estate loans are loans made to lessors of non-residential dwellings that total $396,795,000, or 27.0%, of total loans at December 31, 2021. These borrowers are geographically disbursed throughout ACNB’s marketplace and are leasing commercial properties to a varied group of tenants including medical offices, retail space and recreational facilities. Because of the varied nature of the tenants in aggregate, management believes that these loans do not present any greater risk than commercial loans in general.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, balances due from banks, and federal funds sold, all of which mature within 90 days.

Securities

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

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses 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.

Loans Held for Sale

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

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

Loans

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

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

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

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

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

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses (the "allowance") is established as losses are estimated to occur through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated statement of condition. The amount of the reserve for unfunded lending commitments is not material to the consolidated financial statements.

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity, and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative risk factors. These qualitative risk factors include:

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

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

The unallocated component of the allowance is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. It covers risks that are inherently difficult to quantify including, but not limited to, collateral risk, information risk, and historical charge-off risk.

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

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

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

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

The Corporation actively monitors the values of collateral as well as the age of the valuation of impaired loans. The Corporation orders valuations at least every 18 months, or more frequently if management believes that there is an indication that the fair value has declined.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Residential mortgage loans are subject to risk due primarily to general economic conditions, as well as periods of weak housing markets.

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 periods of weak housing markets.

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 are weak and property values deteriorate.

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

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

Consumer loans may entail greater credit risk than residential mortgage loans or home equity lines of credit, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Acquired Loans

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

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

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

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

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

Acquired ASC 310-30 loans that met the criteria for non-accrual of interest prior to acquisition are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if the Corporation can reasonably estimate the timing and amount of expected cash flows on such loans. Accordingly, the Corporation does 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 $2.6 million.

Additionally, for loans acquired without credit quality 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 $5.9 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.

Premises and Equipment

Land is carried at cost. Buildings, furniture, fixtures, equipment and leasehold improvements are carried at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method over the assets' estimated useful lives. Normally, a buildings useful life is 40 years, except for building remodels and additions, which are depreciated over fifteen years. Bank equipment, including furniture and fixtures, is normally depreciated over five - fifteen years depending upon the nature of the purchase. Maintenance and normal repairs are charged to expense when incurred while major additions and improvements are capitalized. Gains and losses on disposals are reflected in current operations. Amortization of leasehold improvements is computed by straight line over the shorter of the assets' useful life or the related lease term.

Restricted Investment in Bank Stocks

Restricted investment in bank stocks, which represents required investments in the common stock of correspondent banks, is carried at cost as of December 31, 2021 and 2020, and consists of common stock in the Atlantic Central Bankers Bank, Maryland Financial Bank, Community Bankers Bank and Federal Home Loan Bank (FHLB).

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

Management believes no impairment charge was necessary related to the restricted investment in bank stocks during 2021 or 2020. However, security impairment analysis is completed quarterly, and the determination that no impairment has occurred during those years is no assurance that impairment may not occur in future periods.

Bank-Owned Life Insurance

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

ASC Topic 715, *Compensation—Retirement Benefits*, requires a liability to be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability is based on either the post-employment benefit cost for continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. The Corporation's liability is based on the post-employment benefit cost for continuing life insurance. The Corporation incurred approximately $86,000 and $139,000 of expense in 2021 and 2020, respectively, related to these benefits.

Investments in Low-Income Housing Partnerships

The Corporation's investments in low-income housing partnerships are accounted for using the "equity method" prescribed by ASC Topic 323, *Investments — Equity Method*. In accordance with ASC Topic 740, *Income Taxes*, tax credits are recognized as they become available. Any residual loss is amortized as the tax credits are received.

Goodwill and Intangible Assets

The Corporation accounts for its acquisitions using the acquisition accounting method required by ASC Topic 805, *Business Combinations.* Acquisition accounting requires the total purchase price to be allocated to the estimated fair values of assets and liabilities acquired, including certain intangible assets that must be recognized. Generally, this results in a residual amount in excess of the net fair values, which is recorded as goodwill.

ASC Topic 350, *Intangibles—Goodwill and Other,* requires that goodwill is not amortized to expense, but rather that it be assessed or tested for impairment at least annually. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. Impairment write-downs are charged to results of operations in the period in which the impairment is determined. The Corporation did not identify any impairment on ACNB Insurance Services, Inc.'s outstanding goodwill from its most recent testing, which was performed as of October 1, 2021. The Corporation did not identify any impairment on the Bank's outstanding goodwill from its most recent qualitative assessment, which was completed as of December 31, 2021. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. Other acquired intangible assets that have finite lives, such as core deposit intangibles, customer relationship intangibles and renewal lists, are amortized over their estimated useful lives and subject to periodic impairment testing. Core deposit intangibles are primarily amortized over ten years using accelerated methods. Customer renewal lists are amortized using the straight line method over their estimated useful lives which range from eight to fifteen years.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are adjusted to the fair value, less costs to sell as necessary. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. There was no outstanding foreclosed asset balance held at December 31, 2021 and 2020.

Income Taxes

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

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

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

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

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

Retirement Plan

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

Stock-based Compensation

The ACNB Corporation 2009 Restricted Stock plan expired by its own terms after 10 years on February 24, 2019. The purpose of this plan was to provide employees and directors of the Bank who have responsibility for its growth with additional incentives by allowing them to acquire ownership in the Corporation and, thereby, encouraging them to contribute to the success of the Corporation. As of December 31, 2021, 25,945 shares were issued under the plan and all shares are fully vested. No further shares may be issued under this restricted stock plan. The Corporation’s Registration Statement under the Securities Act of 1933 on Form S-8 for the ACNB Corporation 2009 Restricted Stock Plan was filed with the Securities and Exchange Commission on January 4, 2013. Post-Effective Amendment No. 1 to this Form S-8 was filed with the Commission on March 8, 2019, effectively transferring the 174,055 authorized, but not issued, shares under the ACNB Corporation 2009 Restricted Stock Plan to the ACNB Corporation 2018 Omnibus Stock Incentive Plan.

On May 1, 2018, stockholders approved and ratified the ACNB Corporation 2018 Omnibus Stock Incentive Plan, effective as of March 20, 2018, in which awards shall not exceed, in the aggregate, 400,000 shares of common stock, plus any shares that are authorized, but not issued, under the ACNB Corporation 2009 Restricted Stock Plan. As of December 31, 2021, 35,587 shares were issued under this plan, of which 29,432 are fully vested and the remaining 6,155 will vest over the next one year. The Corporation’s Registration Statement under the Securities Act of 1933 of Form S-8 for the ACNB Corporation 2018 Omnibus Stock Incentive Plan was filed with the Securities and Exchange Commission on March 8, 2019. In addition, on March 8, 2019, the Corporation filed Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 for the ACNB Corporation 2009 Restricted Stock Plan to add the ACNB Corporation 2018 Omnibus Stock Incentive Plan to the registration statement.

Plan expense is recognized over the vesting period of the stock issued under both plans. $110,000 and $517,000 of compensation expenses related to the grants were recognized for the years ended December 31, 2021 and 2020, respectively.

Net Income per Share

The Corporation has a simple capital structure. Basic earnings per share of common stock is computed based on 8,714,926 and 8,638,654 weighted average shares of common stock outstanding for 2021 and 2020, respectively. All outstanding unvested restricted stock awards that contain rights to nonforfeitable dividends are considered participating for this calculation.

Advertising Costs

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

Off-Balance Sheet Credit-Related Financial Instruments

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

Transfers of Financial Assets

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

Accumulated Other Comprehensive Loss

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

In thousands	Unrealized Gains on Securities	Pension Liability	Accumulated Other Comprehensive Loss
BALANCE — DECEMBER 31, 2021	**$ (3,474)**	**$ (6,071)**	**$ (9,545)**
BALANCE — DECEMBER 31, 2020	$ 4,645	$ (10,283)	$ (5,638)

Segment Reporting

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

New Accounting Pronouncements

The Corporation adopted ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans.* The ASU removes the following disclosures: the amounts in accumulated other comprehensive income that the entity expects to recognize in net periodic benefit cost during the next fiscal year; the amount and timing of plan assets expected to be returned to the employer; and, certain related party disclosures. The ASU clarifies the following disclosure requirements: the projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets must be disclosed; and, the accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets must be disclosed. The ASU adds the following disclosure requirements: the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates; and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The ASU was effective for public business entities in fiscal years ending after December 15, 2020. The Corporation adopted this ASU on December 31, 2020 and the adoption of this ASU did not have a material effect on the Corporation's consolidated financial condition or results of operations.

ASU 2016-13

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

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

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

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

Certain incremental disclosures are required. Until recently, the new CECL standard was expected to become effective for the Corporation on January 1, 2020, and for interim periods within that year. In October 2019, FASB voted to delay implementation of the new CECL standard for certain companies, including those companies that qualify as a smaller reporting company under SEC rules, until January 1, 2023. The Corporation currently expects to continue to qualify as a smaller reporting company, based upon the current SEC definition, and as a result, will likely be able to defer implementation of the new CECL standard for a period of time. The Corporation did not early adopt as of January 1, 2020, but will continue to review factors that might indicate that the full deferral time period should not be used. The Corporation continues to evaluate the impact the CECL model will have on the accounting for credit losses, but the Corporation expects to recognize a one-time cumulative-effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. The Corporation cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on its consolidated financial condition or results of operations. Management has developed a committee to address CECL and the committee is currently evaluating options to comply with the ASU in a timely manner.

ASU 2020-04

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*. The amendments in this Update provide optional guidance for a limited time to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from LIBOR toward new interest rate benchmarks. For transactions that are modified because of reference rate reform and that meet certain scope guidance (i) modifications of loan agreements should be accounted for by prospectively adjusting the effective interest rate and the modification will be considered “minor” so that any existing unamortized origination fees/costs would carry forward and continue to be amortized and (ii) modifications of lease agreements should be accounted for as a continuation of the existing agreement with no reassessments of the lease classification and the discount rate or remeasurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts. ASU 2020-04 is effective March 12, 2020 through December 31, 2022. An entity may elect to apply ASU 2020-04 for contract modifications as of January 1, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. The Corporation is currently evaluating the impact this ASU will have on its consolidated financial condition or results of operations.

NOTE B — RESTRICTIONS ON CASH AND DUE FROM BANKS

In return for services obtained through correspondent banks, the Corporation is required to maintain non-interest bearing cash balances in those correspondent banks. At December 31, 2021 and 2020, all compensating balances are met by vault cash.

NOTE C — SECURITIES

Amortized cost and fair value at December 31, 2021 and 2020, were as follows:

In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
December 31, 2021				
U.S. Government and agencies	**$ 249,463**	**$ 503**	**$ 4,925**	**$ 245,041**
Mortgage-backed securities, residential	**133,697**	**1,562**	**1,763**	**133,496**
State and municipal	**44,547**	**315**	**251**	**44,611**
Corporate bonds	**13,858**	**164**	**72**	**13,950**
	$ 441,565	**$ 2,544**	**$ 7,011**	**$ 437,098**
December 31, 2020				
U.S. Government and agencies	$ 181,704	$ 2,117	$ 218	$ 183,603
Mortgage-backed securities, residential	105,327	3,529	34	108,822
State and municipal	35,930	561	7	36,484
Corporate bonds	8,784	41	16	8,809
	$ 331,745	$ 6,248	$ 275	$ 337,718
SECURITIES HELD TO MATURITY				
December 31, 2021				
Mortgage-backed securities, residential	**$ 6,454**	**$ 198**	**$ —**	**$ 6,652**
	$ 6,454	**$ 198**	**$ —**	**$ 6,652**
December 31, 2020				
Mortgage-backed securities, residential	$ 10,294	$ 474	$ —	$ 10,768
	$ 10,294	$ 474	$ —	$ 10,768

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

In thousands	Fair Value at January 1, 2021	Unrealized Gains	Unrealized Losses	Fair Value at December 31, 2021
December 31, 2021				
CRA Mutual Fund	**$ 1,065**	**$ —**	**$ 29**	**$ 1,036**
Stock in other banks	**1,105**	**468**	**—**	**1,573**
	$ 2,170	**$ 468**	**$ 29**	**$ 2,609**

In thousands	Fair Value at January 1, 2020	Unrealized Gains	Unrealized Losses	Fair Value at December 31, 2020
December 31, 2020				
CRA Mutual Fund	$ 1,045	$ 25	$ 5	$ 1,065
Stock in other banks	1,318	—	213	1,105
	$ 2,363	$ 25	$ 218	$ 2,170

The following table shows the Corporation's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2021 and 2020:

	Less than 12 Months		12 Months or More		Total	
In thousands	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealiz Losses**
SECURITIES AVAILABLE FOR SALE						
December 31, 2021						
U.S. Government and agencies	**$ 177,107**	**$ 3,537**	**$ 34,297**	**$ 1,388**	**$ 211,404**	**$ 4,**
Mortgage-backed securities, residential	**77,969**	**1,495**	**7,727**	**268**	**85,696**	**1,**
State and municipal	**20,289**	**224**	**2,123**	**27**	**22,412**	
Corporate bonds	**5,790**	**72**	**—**	**—**	**5,790**	
	$ 281,155	**$ 5,328**	**$ 44,147**	**$ 1,683**	**$ 325,302**	**$ 7,**
December 31, 2020						
U.S. Government and agencies	$ 32,629	$ 218	$ —	$ —	$ 32,629	$
Mortgage-backed securities, residential	10,458	34	—	—	10,458	
State and municipal	2,148	7	—	—	2,148	
Corporate bonds	1,514	16	—	—	1,514	
	$ 46,749	$ 275	$ —	$ —	$ 46,749	$
SECURITIES HELD TO MATURITY						
December 31, 2021						
U.S. Government and agencies	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$**
Mortgage-backed securities, residential	**—**	**—**	**—**	**—**	**—**	
	$ —	**$ —**	**$ —**	**$ —**	**$ —**	**$**
December 31, 2020						
Mortgage-backed security, residential	$ —	$ —	$ —	$ —	$ —	$
	$ —	$ —	$ —	$ —	$ —	$

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

At December 31, 2021, eighty-nine available for sale U.S. Government and agency securities had unrealized losses that individually did not exceed 6% of amortized cost. Fifteen of these securities have been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

At December 31, 2021, forty-four available for sale residential mortgage-backed securities had unrealized losses that individually did not exceed 4% of amortized cost. Six of these securities have been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

At December 31, 2021, thirty-five available for sale state and municipal securities had unrealized losses that individually did not exceed 4% 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 December 31, 2021, seven corporate bonds had unrealized losses that individually did not exceed 2% of amortized cost. None of these securities have been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance, and projected target prices of investment analysts within a one-year time frame. Based on the above information, management has determined that none of these investments are other-than-temporarily impaired.

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

Management routinely sells securities from its available for sale portfolio in an effort to manage and allocate the portfolio. At December 31, 2021, 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 December 31, 2021, by contractual maturity, where applicable, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay with or without penalties.

	Available for Sale		Held to Maturity	
In thousands	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
1 year or less	$ **20,073**	$ **20,266**	$ —	$ —
Over 1 year through 5 years	**91,538**	**90,756**	—	—
Over 5 years through 10 years	**149,118**	**145,590**	—	—
Over 10 years	**47,139**	**46,990**	—	—
Mortgage-backed securities, residential	**133,697**	**133,496**	**6,454**	**6,652**
	$ **441,565**	$ **437,098**	$ **6,454**	$ **6,652**

The Corporation did not sell any securities available for sale during 2020 or 2021.

At December 31, 2021 and 2020, securities with a carrying value of 353,989,000 and $301,201,000, respectively, were pledged as collateral as required by law on public and trust deposits, repurchase agreements, and for other purposes.

NOTE D — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Corporation's internal risk rating system as of December 31, 2021 and 2020:

In thousands	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2021					
Originated Loans					
Commercial and industrial	$ 139,908	$ 5,549	$ 2,056	$ —	$ 147,513
Commercial real estate	500,978	56,462	8,658	—	566,098
Commercial real estate construction	41,002	1,659	—	—	42,661
Residential mortgage	299,041	4,961	75	—	304,077
Home equity lines of credit	74,094	883	—	—	74,977
Consumer	9,708	—	—	—	9,708
Total Originated Loans	1,064,731	69,514	10,789	—	1,145,034
Acquired Loans					
Commercial and industrial	29,728	1,555	771	—	32,054
Commercial real estate	207,937	11,596	624	—	220,157
Commercial real estate construction	5,228	2,111	—	—	7,339
Residential mortgage	39,378	4,175	1,495	—	45,048
Home equity lines of credit	17,491	37	257	—	17,785
Consumer	997	—	13	—	1,010
Total Acquired Loans	300,759	19,474	3,160	—	323,393
Total Loans					
Commercial and industrial	169,636	7,104	2,827	—	179,567
Commercial real estate	708,915	68,058	9,282	—	786,255
Commercial real estate construction	46,230	3,770	—	—	50,000
Residential mortgage	338,419	9,136	1,570	—	349,125
Home equity lines of credit	91,585	920	257	—	92,762
Consumer	10,705	—	13	—	10,718
Total Loans	$ 1,365,490	$ 88,988	$ 13,949	$ —	$ 1,468,427

In thousands	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2020					
Originated Loans					
Commercial and industrial	$ 270,047	$ 5,168	$ 2,688	$ —	$ 277,903
Commercial real estate	414,538	54,122	10,463	—	479,123
Commercial real estate construction	39,462	1,746	—	—	41,208
Residential mortgage	332,632	4,327	178	—	337,137
Home equity lines of credit	80,560	346	—	—	80,906
Consumer	11,819	—	—	—	11,819
Total Originated Loans	1,149,058	65,709	13,329	—	1,228,096
Acquired Loans					
Commercial and industrial	38,882	1,893	1,476	—	42,251
Commercial real estate	245,597	16,706	3,201	—	265,504
Commercial real estate construction	10,300	2,394	—	—	12,694
Residential mortgage	58,787	3,535	1,881	—	64,203
Home equity lines of credit	23,165	97	442	—	23,704
Consumer	1,330	—	2	—	1,332
Total Acquired Loans	378,061	24,625	7,002	—	409,688
Total Loans					
Commercial and industrial	308,929	7,061	4,164	—	320,154
Commercial real estate	660,135	70,828	13,664	—	744,627
Commercial real estate construction	49,762	4,140	—	—	53,902
Residential mortgage	391,419	7,862	2,059	—	401,340
Home equity lines of credit	103,725	443	442	—	104,610
Consumer	13,149	—	2	—	13,151
Total Loans	$ 1,527,119	$ 90,334	$ 20,331	$ —	$ 1,637,784

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	Year Ended December 31, 2021	Year Ended December 31, 2020
Balance at beginning of period	**$ 596**	$ 642
Acquisitions of impaired loans	**—**	354
Reclassification from non-accretable differences	**253**	311
Accretion to loan interest income	**(414)**	(711)
Balance at end of period	**$ 435**	$ 596

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 December 31, 2021 and 2020:

In thousands	Impaired Loans with Allowance: Recorded Investment	Impaired Loans with Allowance: Unpaid Principal Balance	Impaired Loans with Allowance: Related Allowance	Impaired Loans with No Allowance: Recorded Investment	Impaired Loans with No Allowance: Unpaid Principal Balance
December 31, 2021					
Commercial and industrial	**$ 1,005**	**$ 1,005**	**$ 855**	**$ 482**	**$ 1,452**
Commercial real estate	**1,311**	**1,311**	**600**	**6,265**	**6,265**
Commercial real estate construction	**—**	**—**	**—**	**—**	**—**
Residential mortgage	**—**	**—**	**—**	**—**	**—**
Home equity lines of credit	**—**	**—**	**—**	**—**	**—**
Total	**$ 2,316**	**$ 2,316**	**$ 1,455**	**$ 6,747**	**$ 7,717**
December 31, 2020					
Commercial and industrial	$ 2,031	$ 2,031	$ 1,224	$ —	$ —
Commercial real estate	2,728	2,728	158	5,861	5,861
Commercial real estate construction	—	—	—	—	—
Residential mortgage	—	—	—	101	101
Home equity lines of credit	—	—	—	—	—
Total	$ 4,759	$ 4,759	$ 1,382	$ 5,962	$ 5,962

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

In thousands	Impaired Loans with Allowance: Average Recorded Investment	Impaired Loans with Allowance: Interest Income	Impaired Loans with No Allowance: Average Recorded Investment	Impaired Loans with No Allowance: Interest Income
December 31, 2021				
Commercial and industrial	**$ 1,888**	**$ —**	**$ 7**	**$ —**
Commercial real estate	**1,468**	**181**	**6,673**	**20**
Commercial real estate construction	**—**	**2**	**123**	**—**
Residential mortgage	**—**	**—**	**60**	**—**
Home equity lines of credit	**—**	**—**	**—**	**—**
Total	**$ 3,356**	**$ 183**	**$ 6,863**	**$ 20**
December 31, 2020				
Commercial and industrial	$ 441	$ —	$ 9	$ —
Commercial real estate	1,642	—	6,513	184
Commercial real estate construction	—	—	495	109
Residential mortgage	—	—	114	7
Home equity lines of credit	—	—	39	3
Total	$ 2,083	$ —	$ 7,170	$ 303

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

If interest on all nonaccrual loans had been accrued at original contract rates, interest income would have increased by $462,000 in 2021 and $379,000 in 2020.

The following table presents nonaccrual loans by loan portfolio class as of December 31, 2021 and 2020, the table below excludes $4.6 million in purchase credit impaired loans, net of unamortized fair value adjustments:

In thousands	2021	2020
Commercial and industrial	**$ 1,487**	$ 2,031
Commercial real estate	**4,002**	4,909
Commercial real estate construction	**—**	—
Residential mortgage	**—**	101
Home equity lines of credit	**—**	—
Total	**$ 5,489**	$ 7,041

There were no loans whose terms have been modified resulting in a troubled debt restructuring during the years ended December 31, 2021 and 2020. The Corporation classifies certain loans as troubled debt restructurings when credit terms to a borrower in financial difficulty are modified. The modifications may include a reduction in rate, an extension in term and/or the restructuring of scheduled principal payments. The Corporation had pre-existing nonaccruing and accruing troubled debt restructurings of $3,637,000 and $3,807,000 at December 31, 2021 and 2020, respectively. All of the Corporation's troubled debt restructured loans are also impaired loans, of which some have resulted in a specific allocation and, subsequently, a charge-off as appropriate. Included in the non-accrual loan total at December 31, 2021 and 2020, were $63,000 and $127,000, respectively, of troubled debt restructurings. In addition to the troubled debt restructurings included in non-accrual loans, the Corporation also has a loan classified as an accruing troubled debt restructurings at December 31, 2021 and 2020, which total $3,574,000 and $3,680,000, respectively. There were no defaulted troubled debt restructured loans as of December 31, 2021 and 2020. There were no charge-offs on any of the troubled debt restructured loans for the years ended December 31, 2021 and 2020. There were no specific allocations on any troubled debt restructured loans for the years ended December 31, 2021 and 2020. All other troubled debt restructured loans were current as of December 31, 2021, with respect to their associated forbearance agreement, except for one loan which has had periodic late payments. As of December 31, 2021, there are no active forbearance agreements. All forbearance agreements have expired or the loans have paid off.

Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at December 31, 2021 and 2020, totaled $399,000 and $391,000, respectively.

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

The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2021 and 2020:

In thousands	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
December 31, 2021							
Originated Loans							
Commercial and industrial	$ 20	$ 64	$ 1,397	$ 1,481	$ 146,032	$ 147,513	$ —
Commercial real estate	—	—	2,483	2,483	563,615	566,098	—
Commercial real estate construction	—	—	—	—	42,661	42,661	—
Residential mortgage	970	140	475	1,585	302,492	304,077	475
Home equity lines of credit	239	42	255	536	74,441	74,977	255
Consumer	84	58	—	142	9,566	9,708	—
Total originated loans	1,313	304	4,610	6,227	1,138,807	1,145,034	730
Acquired Loans							
Commercial and industrial	—	—	—	—	32,054	32,054	—
Commercial real estate	—	270	—	270	219,887	220,157	—
Commercial real estate construction	—	—	—	—	7,339	7,339	—
Residential mortgage	210	950	—	1,160	43,888	45,048	—
Home equity lines of credit	1,156	—	—	1,156	16,629	17,785	—
Consumer	—	—	—	—	1,010	1,010	—
Total acquired loans	1,366	1,220	—	2,586	320,807	323,393	—
Total Loans							
Commercial and industrial	20	64	1,397	1,481	178,086	179,567	—
Commercial real estate	—	270	2,483	2,753	783,502	786,255	—
Commercial real estate construction	—	—	—	—	50,000	50,000	—
Residential mortgage	1,180	1,090	475	2,745	346,380	349,125	475
Home equity lines of credit	1,395	42	255	1,692	91,070	92,762	255
Consumer	84	58	—	142	10,576	10,718	—
Total Loans	$ 2,679	$ 1,524	$ 4,610	$ 8,813	$ 1,459,614	$ 1,468,427	$ 730

In thousands	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
December 31, 2020							
Originated Loans							
Commercial and industrial	$ 1,432	$ —	$ —	$ 1,432	$ 276,471	$ 277,903	$ —
Commercial real estate	133	2,463	1,631	4,227	474,896	479,123	—
Commercial real estate construction	—	76	—	76	41,132	41,208	—
Residential mortgage	1,382	335	623	2,340	334,797	337,137	522
Home equity lines of credit	54	60	58	172	80,734	80,906	58
Consumer	98	51	—	149	11,670	11,819	—
Total originated loans	3,099	2,985	2,312	8,396	1,219,700	1,228,096	580
Acquired Loans							
Commercial and industrial	122	231	—	353	41,898	42,251	—
Commercial real estate	319	220	—	539	264,965	265,504	—
Commercial real estate construction	42	—	97	139	12,555	12,694	97
Residential mortgage	834	349	146	1,329	62,874	64,203	146
Home equity lines of credit	196	—	32	228	23,476	23,704	32
Consumer	—	16	—	16	1,316	1,332	—
Total acquired loans	1,513	816	275	2,604	407,084	409,688	275
Total Loans							
Commercial and industrial	1,554	231	—	1,785	318,369	320,154	—
Commercial real estate	452	2,683	1,631	4,766	739,861	744,627	—
Commercial real estate construction	42	76	97	215	53,687	53,902	97
Residential mortgage	2,216	684	769	3,669	397,671	401,340	668
Home equity lines of credit	250	60	90	400	104,210	104,610	90
Consumer	98	67	—	165	12,986	13,151	—
Total Loans	$ 4,612	$ 3,801	$ 2,587	$ 11,000	$ 1,626,784	$ 1,637,784	$ 855

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

In thousands	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction	Residential Mortgage	Home Equity Lines of Credit	Consumer	Unallocated	Total
December 31, 2021								
Allowance for loan losses								
Beginning balance- January 1, 2021	**$ 4,037**	**$ 9,569**	**$ 503**	**$ 3,395**	**$ 693**	**$ 648**	**$ 1,381**	**$ 20,226**
Charge-offs	**(1,176)**	**—**	**—**	**—**	**(22)**	**(120)**	**—**	**(1,318)**
Recoveries	**43**	**—**	**—**	**—**	**—**	**32**	**—**	**75**
Provisions (credits)	**272**	**1,147**	**113**	**(160)**	**(170)**	**(152)**	**(1,000)**	**50**
Ending balance- December 31, 2021	**$ 3,176**	**$ 10,716**	**$ 616**	**$ 3,235**	**$ 501**	**$ 408**	**$ 381**	**$ 19,033**
Ending balance: individually evaluated for impairment	**$ 855**	**$ 600**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 1,455**
Ending balance: collectively evaluated for impairment	**$ 2,321**	**$ 10,116**	**$ 616**	**$ 3,235**	**$ 501**	**$ 408**	**$ 381**	**$ 17,578**
Loans receivables								
Ending balance	**$ 179,567**	**$ 786,255**	**$ 50,000**	**$ 349,125**	**$ 92,762**	**$ 10,718**	**$ —**	**$ 1,468,427**
Ending balance: individually evaluated for impairment	**$ 1,487**	**$ 7,576**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 9,063**
Ending balance: collectively evaluated for impairment	**$ 178,080**	**$ 778,679**	**$ 50,000**	**$ 349,125**	**$ 92,762**	**$ 10,718**	**$ —**	**$ 1,459,364**
December 31, 2020								
Allowance for loan losses								
Beginning balance- January 1, 2020	$ 2,400	$ 6,693	$ 298	$ 2,555	$ 619	$ 650	$ 620	$ 13,835
Charge-offs	(2,107)	(675)	—	—	—	(205)	—	(2,987)
Recoveries	83	96	—	1	29	29	—	238
Provisions	3,661	3,455	205	839	45	174	761	9,140
Ending balance- December 31, 2020	$ 4,037	$ 9,569	$ 503	$ 3,395	$ 693	$ 648	$ 1,381	$ 20,226
Ending balance: individually evaluated for impairment	$ 1,224	$ 158	$ —	$ —	$ —	$ —	$ —	$ 1,382
Ending balance: collectively evaluated for impairment	$ 2,813	$ 9,411	$ 503	$ 3,395	$ 693	$ 648	$ 1,381	$ 18,844
Loans receivables								
Ending balance	$ 320,154	$ 744,627	$ 53,902	$ 401,340	$ 104,610	$ 13,151	$ —	$ 1,637,784
Ending balance: individually evaluated for impairment	$ 2,031	$ 8,589	$ —	$ 101	$ —	$ —	$ —	$ 10,721
Ending balance: collectively evaluated for impairment	$ 318,123	$ 736,038	$ 53,902	$ 401,239	$ 104,610	$ 13,151	$ —	$ 1,627,063

The Bank has granted loans to certain of its executive officers, directors and their related interests. These loans were made on substantially the same basis, including interest rates and collateral as those prevailing for comparable transactions with other borrowers at the same time. The aggregate amount of these loans was $5,214,000 and $5,215,000 at December 31, 2021 and 2020, respectively. During 2021, $1,350,000 new loans or advances were extended and repayments totaled $806,000. None of these loans were past due, in nonaccrual status, or restructured at December 31, 2021.

Loan Modifications/Troubled Debt Restructurings/COVID-19

The Corporation implemented numerous initiatives to support and protect employees and customers during the COVID-19 pandemic. These efforts continue with current information and guidelines related to ongoing COVID-19 initiatives. As of September 30, 2021, the Corporation no longer had any temporary loan modifications or deferrals for either commercial or consumer customers, furthering the positive trend of improvement in 2021. In comparison, at December 31, 2020, the Corporation had outstanding approvals for temporary loan modifications and deferrals for 48 loans totaling $36,123,155 in principal balances, representing 2.2% of the total loan portfolio. The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020, and provided over $2.0 trillion in emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the Small Business Administration (SBA) to temporarily guarantee loans under a new 7(a) loan program called the Paycheck Protection Program (PPP). As a qualified SBA lender, the Corporation was automatically authorized to originate PPP loans.

On December 27, 2020, President Trump signed H.R. 133, the Consolidated Appropriations Act, 2021, into law (Economic Aid Act). Congress appropriated approximately $285 billion to the SBA to reopen the PPP for first-time and second-time borrowers. The Economic Aid Act reopened the PPP for first-time borrowers (First Draw PPP Loan) and allows for a second draw of PPP funds (Second Draw PPP Loan) for small businesses with 300 or fewer employees that have sustained a 25% drop in revenue in any quarter of 2020 when compared to the same quarter in 2019. To receive a second draw PPP loan, a business must use or have used the full amount of their first PPP loan. The maximum second-draw loan amount is $2 million. Second Draw PPP Loans will have: (a) an interest rate of 1.0%, (b) a five-year loan term to maturity; and (c) principal and interest payments deferred until ten months following the last day of the covered period.

An eligible business can apply for a PPP loan up to the greater of: (1) 2.5 times its average monthly payroll costs, or (2) $10.0 million. PPP loans will have: (a) an interest rate of 1.0%, (b) a two-year or five-year loan term to maturity; and (c) principal and interest payments deferred until ten months following the last day of the covered period. The SBA will guarantee 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrowers' PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP, so long as employee and compensation levels of the business are maintained and 60% of the loan proceeds are used for payroll expenses, with the remaining 40% of the loan proceeds used for other qualifying expenses.

As of December 31, 2021, the Corporation had closed and funded 2,217 PPP loans totaling $223,036,703, resulting in approximately $9.5 million in total fee income. Of this fee income amount, $2,875,000, before costs, was recognized in 2020 and another $5,627,000, before costs, was recognized in 2021 as an adjustment to interest income yield, with the remainder to be recognized in future quarters as an adjustment to interest income yield. At December 31, 2021, there was an outstanding balance of $18,540,986 in PPP loans as a result of forgiveness and repayments to date. Currently the Corporation is assisting the remainder of PPP customers with the processing of applications for loan forgiveness through the Small Business Administration (SBA).

NOTE E — PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

In thousands	2021	2020
Land	**$ 6,953**	$ 8,104
Buildings and improvements	**33,139**	33,485
Furniture and equipment	**16,781**	16,466
Construction in process	**888**	25
	57,761	58,080
Accumulated depreciation	**(26,781)**	(25,067)
	$ 30,980	$ 33,013

Depreciation expense was $2,277,000 and $2,387,000 for the years ended December 31, 2021 and 2020, respectively.

NOTE F — INVESTMENTS IN LOW-INCOME HOUSING PARTNERSHIPS

ACNB Corporation is a limited partner in three partnerships, whose purpose is to develop, manage and operate residential low-income properties. At December 31, 2021 and 2020, the carrying value of these investments was approximately $1,254,000 and $1,380,000, respectively.

NOTE G — DEPOSITS

Deposits were comprised of the following as of December 31:

	In thousands	
	2021	**2020**
Non-interest bearing demand	**$ 623,360**	$ 556,666
Interest bearing demand	**320,597**	291,271
Savings	**1,052,380**	860,930
Time certificates of deposit of $250,000 or less	**322,855**	376,488
Time certificates of deposit greater than $250,000	**107,197**	100,170
	$ 2,426,389	$ 2,185,525

Scheduled maturities of time certificates of deposit at December 31, 2021, were as follows:

Years Ending	**In thousands**
2022	$ 328,489
2023	58,810
2024	22,211
2025	11,673
2026	8,869
	$ 430,052

NOTE H — LEASE COMMITMENTS

The Corporation enters into noncancellable lease arrangements primarily for some of its community offices. Certain lease arrangements contain clauses requiring increasing rental payments over the lease term, which are generally contractually stipulated. Many of these lease arrangements provide the Corporation with the option to renew the lease arrangement after the initial lease term. These options are included in determining the lease term used to establish the right-of-use assets and lease liabilities, in accordance with ASU 2016-02, when it is reasonably certain the Corporation will exercise its renewal option. As most of the Corporation’s leases do not have a readily determinable implicit rate, the incremental borrowing rate is primarily used to determine the discount rate for purposes of measuring the right-of-use assets and lease liabilities. The Corporation’s lease arrangements do not contain any material residual value guarantees or material restrictive covenants.

The following right-of-use assets and lease liabilities are reported within the consolidated statements of condition as follows:

In thousands	December 31, 2021
Operating Leases:	
Right of use assets	$ 3,270
Lease liabilities	3,270

In thousands	December 31, 2020
Operating Leases:	
Right of use assets	$ 3,145
Lease liabilities	3,138

Supplemental balance sheet information related to leases was as follows for the year ended December 31, 2021:

Operating Leases:	
Weighted average remaining lease term	7.0 years
Weighted average discount rate	5.63 %

The following summarizes the remaining scheduled future minimum lease payments for operating leases as of December 31, 2021:

Years Ending	**In thousands**
2022	$ 775
2023	683
2024	664
2025	644
2026	540
Thereafter	1,140
Total minimum lease payments	4,446
Less: Amount representing interest (1)	1,176
Present value of net minimum lease payments	$ 3,270

(1) Amount necessary to reduce net minimum lease payments to present value calculated at the Corporation's incremental borrowing rate.

As of December 31, 2021, the Corporation does not have any significant additional operating or finance leases that have not yet commenced. The total rent expense for all operating leases was $967,000 and $1,024,000 for the years ended December 31, 2021 and 2020, respectively.

ACNB leased space at several of its owned offices to other unrelated organizations. Total rental income for these properties was $77,000 and $84,000 for the years ended December 31, 2021 and 2020, respectively.

NOTE I — BORROWINGS

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

	2021		**2020**	
Dollars in thousands	**Amount**	**Rate**	**Amount**	**Rate**
Securities sold under repurchase agreements	**$ 35,202**	**0.12 %**	$ 38,464	0.12 %

Under an agreement with the FHLB, the Bank has short-term borrowing capacity included within its maximum borrowing capacity. All FHLB advances are collateralized by a security agreement covering qualifying loans and unpledged U.S. Treasury, agency and mortgage-backed securities. In addition, all FHLB advances are secured by the FHLB capital stock owned by the Bank having a par value of $1,889,000 at December 31, 2021. The Corporation also has lines of credit that total $29,000,000 with correspondent banks for overnight federal funds borrowings. There were no advances on these lines at December 31, 2021 and 2020.

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

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

The following table presents the short-term borrowings subject to an enforceable master netting arrangement or repurchase agreement as of December 31, 2021 and 2020:

					Gross Amounts Not Offset in the Statements of Condition		
Dollars in thousands		**Gross Amounts of Recognized Liabilities**	**Gross Amounts Offset in the Statements of Condition**	**Net Amounts of Liabilities Presented in the Statements of Condition**	**Financial Instruments**	**Cash Collateral Pledged**	**Net Amount**
December 31, 2021							
Repurchase agreements							
Commercial customers and government entities	**(a)**	**$ 35,202**	**$ —**	**$ 35,202**	**$ (35,202)**	**$ —**	**$ —**
December 31, 2020							
Repurchase agreements							
Commercial customers and government entities	(a)	$ 38,464	$ —	$ 38,464	$ (38,464)	$ —	$ —

(a) As of December 31, 2021 and 2020, the fair value of securities pledged in connection with repurchase agreements was $46,160,000 and $54,680,000, respectively.

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

	2021		2020	
Dollars in thousands	**Amount**	**Rate**	**Amount**	**Rate**
FHLB fixed-rate advances maturing:				
2021	**$ —**	**— %**	$ 22,716	2.10 %
2022	**11,000**	**2.69 %**	11,000	2.69 %
2023	**—**	**— %**	5,000	2.60 %
Loan payable to local bank	**—**	**— %**	1,329	5.51 %
Loan payable variable rate	**2,700**	**3.32 %**	2,700	3.22 %
Trust preferred subordinated debt	**—**	**— %**	5,000	6.39 %
Trust preferred subordinated debt	**6,000**	**— %**	6,000	1.69 %
Subordinated debt	**15,000**	**4.00 %**	—	— %
	$ 34,700	**2.69 %**	$ 53,745	2.76 %

The FHLB advances are collateralized by the assets defined in the security agreement and FHLB capital stock described previously. The Corporation can borrow a maximum of $793,135,000 from the FHLB, of which $762,885,000 was available at December 31, 2021.

The loan payable to a local bank has a fixed rate of 4.50% for the first five years and a variable rate of interest with Prime Rate thereafter to final maturity in June 2028. The principal balance of this note may be prepaid at any time without penalty. This loan was paid off during 2021.

The loan payable variable rate represents a promissory note (note) issued by FCBI in July 2011 and assumed by ACNB Corporation through the acquisition. The note has been amended from time to time through change in terms agreements. Under the current change in terms agreement, the maturity date of the note is April 10, 2022, with the rate of interest accruing on the principal balance of 3.25% per year. The note is unsecured.

The first trust preferred subordinated debt is comprised of debt securities issued by New Windsor in June 2005 and assumed by ACNB Corporation through the acquisition. New Windsor issued $5,000,000 of 6.39% fixed rate capital securities to institutional investors in a private pooled transaction. The proceeds were transferred to New Windsor as trust preferred subordinated debt under the same terms and conditions. The Corporation then contributed the full amount to the Bank in the form of Tier 1 capital. The Corporation has, through various contractual agreements, fully and unconditionally guaranteed all of the trust obligations with respect to the capital securities. This trust preferred security was paid off during 2021.

The second trust preferred subordinated debt is comprised of debt securities issued by FCBI in December 2006 and assumed by ACNB Corporation through the acquisition. FCBI completed the private placement of an aggregate of $6,000,000 of trust preferred securities. The interest rate on the subordinated debentures is currently adjusted quarterly to 163 basis points over three-month LIBOR. The debenture has a provision if LIBOR is no longer available. On December 16, 2021 the most recent interest rate reset date, the interest rate was adjusted to 1.83275% for the period ending March 14, 2022. The trust preferred securities mature on December 15, 2036, and may be redeemed at par, at the Corporation's option, on any interest payment date. The proceeds were transferred to FCBI 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 agreements, fully and unconditionally guaranteed all of the trust obligations with respect to the capital securities.

On March 30, 2021, ACNB Corporation (the Company) entered into Subordinated Note Purchase Agreements (Purchase Agreements) with certain institutional accredited investors and qualified institutional buyers (the Purchasers) pursuant to which the Company sold and issued $15.0 million in aggregate principal amount of its 4.00% fixed-to-floating rate subordinated notes due March 31, 2031 (the Notes). The Notes were issued by the Company to the Purchasers at a price equal to 100% of their face amount. The Company intends to use the net proceeds it received from the sale of the Notes to retire outstanding debt of the Company, repurchase issued and outstanding shares of the Company, support general corporate purposes, underwrite growth opportunities, create an interest reserve for the Notes, and downstream proceeds to ACNB Bank (the Bank), to be used by the Bank to continue to meet regulatory capital requirements, increase the regulatory lending ability of the Bank, and support the Bank's organic growth initiatives. The Notes have a stated maturity of March 31, 2031, are redeemable by the Company at its option, in whole or in part, on or after March 30, 2026, and at any time upon the occurrences of certain events.

NOTE J — REGULATORY RESTRICTIONS ON DIVIDENDS

Dividend payments by the Bank to the Corporation are subject to the Pennsylvania Banking Code, the Federal Deposit Insurance Act, and the regulations of the FDIC, including final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. Under the Banking Code, no dividends may be paid except from "accumulated net earnings" (generally, retained earnings). The Federal Reserve Board and the FDIC have formal and informal policies which provide that insured banks and bank holding companies should generally pay dividends only out of current operating earnings, with some exceptions. As of December 31, 2021, $45,671,000 of undistributed earnings of the Bank, included in consolidated retained earnings, was available for distribution to the Corporation as dividends without prior regulatory approval. Additionally, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

NOTE K — INCOME TAXES

The components of income tax expense for the years ended December 31, 2021 and 2020, are as follows:

In thousands	2021	2020
Federal:		
Current	**$ 6,189**	$ 4,672
Deferred	**24**	(1,121)
	6,213	3,551
State:		
Current	**949**	805
Deferred	**23**	(48)
	972	757
	$ 7,185	$ 4,308

Reconciliations of the statutory federal income tax to the income tax expense reported in the consolidated statements of income for the years ended December 31, 2021 and 2020, are as follows:

	Percentage of Income before Income Taxes	
	2021	**2020**
Federal income tax at statutory rate	**21.0 %**	21.0 %
State income taxes, net of federal benefit	**2.2 %**	2.6 %
Tax-exempt income	**(1.1)%**	(2.0)%
Earnings on investment in bank-owned life insurance	**(0.9)%**	(1.3)%
Rehabilitation and low-income housing credits	**(0.8)%**	(1.1)%
Reduction of federal tax rate	**— %**	— %
Other	**0.1 %**	(0.1)%
	20.5 %	19.1 %

Rehabilitation and low-income housing income tax credits were $281,000 and $259,000, during 2021 and 2020, respectively.

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

In thousands	**2021**	**2020**
Deferred tax assets:		
Allowance for loan losses	**$ 4,336**	$ 4,367
Available for sale securities	**1,017**	—
Accrued deferred compensation	**1,126**	1,053
Pension	**1,714**	2,939
Deferred loan fees	**203**	634
Other-than-temporary impairment	**43**	43
Nonaccrual interest	**590**	359
Deferred director fees	**844**	766
Acquisition accounting	**(1,112)**	(501)
Other	**1,719**	1,747
	10,480	11,407
Deferred tax liabilities:		
Deferred loan fees	—	—
Available for sale securities	—	1,328
Prepaid pension benefit cost	**4,148**	4,207
Prepaid expenses	**131**	130
Accumulated depreciation	**354**	555
Goodwill/intangibles	**1,333**	1,259
	5,966	7,479
Net Deferred Tax Asset included in Other Assets	**$ 4,514**	$ 3,928

The Corporation did not have any uncertain tax positions at December 31, 2021 and 2020. The Corporation's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the Consolidated Statements of Income.

Years that remain open for potential review by the Internal Revenue Service are 2017 through 2020.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law making several changes to the Internal Revenue Code. The changes include, but are not limited to: increasing the limitation on the amount of deductible interest expense, allowing companies to carryback certain net operating losses, and increasing the amount of net operating loss carryforwards that corporations can use to offset taxable income.

The tax law changes in the CARES Act did not have a material impact on the Corporation's income tax provision.

NOTE L — FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

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

For assets measured at fair value, the fair value measurements by level within the fair value hierarchy, and the basis of measurement used at December 31, 2021 and 2020, are as follows:

		Fair Value Measurements at December 31, 2021			
In thousands	**Basis**	**Total**	**Level 1**	**Level 2**	**Level 3**
U.S. Government and agencies		**$ 245,041**	**$ —**	**$ 245,041**	**$ —**
Mortgage-backed securities, residential		**133,496**	**—**	**133,496**	**—**
State and municipal		**44,611**	**—**	**44,611**	**—**
Corporate bonds		**13,950**	**—**	**13,950**	**—**
Total securities available for sale	**Recurring**	**$ 437,098**	**$ —**	**$ 437,098**	**$ —**
Equity securities with readily determinable fair values	**Recurring**	**$ 2,609**	**$ 2,609**	**$ —**	**$ —**
Collateral dependent impaired loans	**Non-recurring**	**$ 5,275**	**$ —**	**$ —**	**$ 5,275**

In thousands	Basis	Fair Value Measurements at December 31, 2020 Total	Level 1	Level 2	Level 3
U.S. Government and agencies		$ 183,603	$ —	$ 183,603	$ —
Mortgage-backed securities, residential		108,822	—	108,822	—
State and municipal		36,484	—	36,484	—
Corporate bonds		8,809	—	8,809	—
Total securities available for sale	Recurring	$ 337,718	$ —	$ 337,718	$ —
Equity securities with readily determinable fair values	Recurring	$ 2,170	$ 2,170	$ —	$ —
Collateral dependent impaired loans	Non-recurring	$ 7,498	$ —	$ —	$ 7,498

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 Valuation Technique	Unobservable Input	Range	Weighted Ave
December 31, 2021					
Impaired loans	**$ 5,275**	**Appraisal of collateral(1)**	**Appraisal adjustments(2)**	**(10) – (50)%**	**(5**
December 31, 2020					
Impaired loans	$ 7,498	Appraisal of collateral(1)	Appraisal adjustments(2)	(10) – (50)%	(5

(1) 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.

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

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

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Corporation's financial instruments at December 31, 2021:

	December 31, 2021				
In thousands	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ **14,912**	$ **14,912**	$ **7,992**	$ **6,920**	$ —
Interest-bearing deposits in banks	**695,219**	**695,219**	**695,219**	—	—
Equity securities available for sale	**2,609**	**2,609**	**2,609**	—	—
Investment securities available for sale	**437,098**	**437,098**	—	**437,098**	—
Investment securities held to maturity	**6,454**	**6,652**	—	**6,652**	—
Loans held for sale	**2,193**	**2,193**	—	**2,193**	—
Loans, less allowance for loan losses	**1,449,394**	**1,459,900**	—	—	**1,459,900**
Accrued interest receivable	**5,520**	**5,520**	—	**5,520**	—
Restricted investment in bank stocks	**2,303**	**2,303**	—	**2,303**	—
Financial liabilities:					
Demand deposits and savings	**1,996,337**	**1,996,337**	—	**1,996,337**	—
Time deposits	**430,052**	**428,718**	—	**428,718**	—
Short-term borrowings	**35,202**	**35,202**	—	**35,202**	—
Long-term borrowings	**13,700**	**13,764**	—	**13,764**	—
Trust preferred subordinated debt	**21,000**	**19,991**	—	**19,991**	—
Accrued interest payable	**109**	**109**	—	**109**	—
Off-balance sheet financial instruments	—	—	—	—	—

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Corporation's financial instruments at December 31, 2020:

	December 31, 2020				
In thousands	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 23,739	$ 23,739	$ 12,436	$ 11,303	$ —
Interest-bearing deposits in banks	375,613	375,613	375,613	—	—
Equity securities available for sale	2,170	2,170	2,170	—	—
Investment securities available for sale	337,718	337,718	—	337,718	—
Investment securities held to maturity	10,294	10,768	—	10,768	—
Loans held for sale	11,034	11,034	—	11,034	—
Loans, less allowance for loan losses	1,617,558	1,662,342	—	—	1,662,342
Accrued interest receivable	6,950	6,950	—	6,950	—
Restricted investment in bank stocks	2,942	2,942	—	2,942	—
Financial liabilities:					
Demand deposits and savings	1,708,868	1,708,868	—	1,708,868	—
Time deposits	476,657	481,138	—	481,138	—
Short-term borrowings	38,464	38,464	—	38,464	—
Long-term borrowings	42,745	43,669	—	43,669	—
Trust preferred subordinated debt	11,000	9,902	—	9,902	—
Accrued interest payable	1,434	1,434	—	1,434	—
Off-balance sheet financial instruments	—	—	—	—	—

NOTE M — RETIREMENT PLANS

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

A measurement date of December 31 has been used for the fiscal years ended December 31, 2021 and 2020.

In thousands	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 39,412**	$ 34,534
Service cost	**879**	751
Interest cost	**945**	1,080
Actuarial loss	**(660)**	4,405
Benefits paid	**(1,453)**	(1,358)
Projected benefit obligation at end of year	**39,123**	39,412
Change in plan assets:		
Fair value of plan assets at beginning of year	**45,337**	44,292
Actual return on plan assets	**6,334**	2,403
Employer contribution	**—**	—
Benefits paid	**(1,453)**	(1,358)
Fair value of plan assets at end of year	**50,218**	45,337
Funded Status, included in other assets	**$ 11,095**	$ 5,925
Amounts recognized in accumulated other comprehensive loss:		
Total net actuarial loss	**$ 7,785**	$ 13,221
Prior service cost	**—**	—
Total included in accumulated other comprehensive loss (pretax)	**$ 7,785**	$ 13,221

For the years ended December 31, 2021 and 2020, the assumptions used to determine the benefit obligation are as follows:

	2021	2020
Discount rate	**2.75 %**	2.45 %
Rate of compensation increase	**3.50 %**	3.50 %

The discount rate assumption used to determine the benefit obligation increased since last year. This change results in a decrease in the benefit obligation.

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

In thousands	2021	2020
Components of net periodic benefit cost (income):		
Service cost	**$ 879**	$ 751
Interest cost	**945**	1,080
Expected return on plan assets	**(2,814)**	(2,746)
Recognized net actuarial loss	**1,255**	675
Amortization of prior service cost	**—**	—
Net Periodic Benefit (Income) Cost	**265**	(240)
Net loss	**(4,181)**	4,749
Amortization of net loss	**(1,255)**	(675)
Amortization of prior service cost	**—**	—
Total recognized in other comprehensive loss (income)	**$ (5,436)**	$ 4,074
Total recognized in net periodic benefit cost (income) and other comprehensive (income) loss	**$ (5,171)**	$ 3,834

For the years ended December 31, 2021 and 2020, the assumptions used to determine the net periodic benefit cost (income) are as follows:

	2021	2020
Discount rate	**2.45 %**	3.20 %
Expected long-term rate of return on plan assets	**6.75 %**	6.75 %
Rate of compensation increase	**3.50 %**	3.50 %

The Corporation's comparison of obligations to plan assets at December 31, 2021 and 2020 are as follows:

In thousands	2021	2020
Projected benefit obligation	**$ 39,123**	$ 39,412
Accumulated benefit obligation	**37,159**	37,522
Fair value of plan assets at measurement date	**50,218**	45,337

It has not yet been determined the amount that the Bank may contribute to the Plan in 2022. ACNB does not anticipate any refunds from the postretirement Plan. The Corporation reduced the future benefit accruals for the defined benefit pension plan effective January 1, 2010, in order to manage total benefit expense. The new formula is the earned benefit as of December 31, 2009, plus 0.75% of a participant's average monthly pay multiplied by years of benefit service earned on and after January 1, 2010, but not more than 25 years. The benefit formula percentage and maximum years of benefit service were both reduced. Effective April 1, 2012, no inactive or former participant in the Plan is eligible to again participate in the plan, and no employee hired after March 31, 2012, is eligible to participate in the Plan. As of the last annual census, ACNB Bank had a combined 346 active, vested terminated, and retired persons in the Plan.

For the year ended December 31, 2021 the mortality assumption has been updated to reflect the historical U.S. mortality date in the MP-2021 report. The assumption changes decreased the benefit obligation by $1,509,000. For the year ended December 31, 2020 the mortality assumption has been updated to reflect the historical U.S. mortality date in the MP-2020 report. The assumption changes increased the benefit obligation by $3,699,000.

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

Years Ending		In thousands
2022	$	1,740
2023		1,870
2024		1,920
2025		1,970
2026		1,980
2027 - 2031		10,160

The Corporation's pension plan weighted-average assets' allocations at December 31, 2021 and 2020, are as follows:

	2021	2020
Equity securities	**65 %**	54 %
Debt securities	**31 %**	32 %
Real property	**4 %**	14 %
	100 %	100 %

The Corporation's overall investment strategy is to achieve a mix of investments to meet the long-term rate of return assumption and near-term pension obligations with a diversification of assets types, fund strategies and fund managers. The mix of investments is adjusted periodically by retaining an advisory firm to recommend appropriate allocations after reviewing the Corporation's risk tolerance on contribution levels, funded status and plan expense, and any applicable regulatory requirements. The weighted-average assets' allocation in the above table represents the Corporation's conclusion on the appropriate mix of investments. The specific investment vehicles are institutional separate accounts from a variety of fund managers which are regularly reviewed by the Corporation for acceptable performance.

Equity securities included Corporation common stock in amounts of $2,543,000, or 5% of total plan assets, and $1,963,000, or 4% of total plan assets, at December 31, 2021 and 2020, respectively.

Fair value measurements at December 31, 2021, are as follows:

In thousands		Total		Level 1		Level 2		Level 3
Equity securities	**$**	**32,909**	**$**	**2,543**	**$**	**30,366**	**$**	**—**
Debt securities		**15,441**		**—**		**15,441**		**—**
Real estate		**1,868**		**—**		**1,868**		**—**

Fair value measurements at December 31, 2020, are as follows:

In thousands		Total		Level 1		Level 2		Level 3
Equity securities	$	24,542	$	1,963	$	22,579	$	—
Debt securities		14,568		—		14,568		—
Real estate		6,227		—		6,227		—

The Corporation's banking subsidiary maintains a 401(k) plan for the benefit of eligible employees. Employees may contribute up to 100% of their compensation subject to certain limits based on federal tax laws. The Bank makes matching contributions equal to 100% of an employee's compensation contributed to the plan up to 3% of an employee's pay, plus 50% of an employee's compensation contributed to the plan on the next 2% of their pay for the payroll period. Matching contributions vest immediately to the employee. Bank contributions to and expenses for the plan were $921,000 and $887,000 for 2021 and 2020, respectively.

ACNB Insurance Services, Inc. has a similar but separate 401(k) plan with the match of 6% for non-highly compensated employees and 3% match for highly compensated employees. ACNB Insurance Services, Inc.'s contributions to and expenses for the plan were $124,000 and $126,000 for 2021 and 2020, respectively.

The Corporation's banking subsidiary maintains nonqualified compensation plans for selected senior officers. The estimated present value of future benefits is accrued over the period from the effective date of the agreements until the expected retirement dates of the individuals. The balance accrued for these plans included in other liabilities as of December 31, 2021 and 2020, totaled $3,768,000 and $3,491,000, respectively. The annual expense included in salaries and benefits expense totaled $505,000 and $524,000 during the years ended December 31, 2021 and 2020, respectively. To fund the benefits under these plans, the Bank is the owner of single premium life insurance policies on participants in the nonqualified retirement plans.

NOTE N — STOCKHOLDERS' EQUITY AND REGULATORY MATTERS

In January 2011, the Corporation offered stockholders the opportunity to participate in the ACNB Corporation Dividend Reinvestment and Stock Purchase Plan. The plan provides registered holders of ACNB Corporation common stock with a convenient way to purchase additional shares of common stock by permitting participants in the plan to automatically reinvest cash dividends on all or a portion of the shares owned and to make quarterly voluntary cash payments under the terms of the plan. Participation in the plan is voluntary, and there are eligibility requirements to participate in the plan. During 2021, 23,884 shares were issued under this plan with proceeds in the amount of $670,000. During 2020, 20,015 shares were issued under this plan with proceeds in the amount of $493,000. Proceeds are used for general corporate purposes.

The ACNB Corporation 2009 Restricted Stock Plan expired by its own terms after ten years on February 24, 2019. No further shares may be issued under this plan. Of the 200,000 shares of common stock authorized under this plan, 25,945 shares were issued. The remaining 174,055 shares were transferred to the ACNB Corporation 2018 Omnibus Stock Incentive Plan.

On May 1, 2018, stockholders approved and ratified the ACNB Corporation 2018 Omnibus Stock Incentive Plan, effective as of March 20, 2018, in which awards shall not exceed, in the aggregate, 400,000 shares of common stock, plus any shares that are authorized, but not issued, under the ACNB Corporation 2009 Restricted Stock Plan. As of December 31, 2021, there were 35,587 shares issued under this plan. The maximum number of shares that may yet be granted under this plan is 538,468. The Corporation's Registration Statement under the Securities Act of 1933 on Form S-8 for the ACNB Corporation 2018 Omnibus Stock Incentive Plan was filed with the Securities and Exchange Commission on March 8, 2019. In addition, on March 8, 2019, the Corporation filed Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 for the ACNB Corporation 2009 Restricted Stock Plan to add the ACNB Corporation 2018 Omnibus Stock Incentive Plan to the registration statement.

On February 25, 2021, the Corporation announced that the Board of Directors approved on February 23, 2021, a plan to repurchase, in open market and privately negotiated transactions, up to 261,000, or approximately 3%, of the outstanding shares of the Corporations's common stock. This new stock repurchase program replaces and supersedes any and all earlier announced repurchase plans. There were 38,970 treasury shares purchased under this plan during the quarter ended December 31, 2021.

On September 30, 2021, the Corporation entered into an issuer stock repurchase agreement with an independent third-party broker under which the broker is authorized to repurchase the Corporation's common stock on behalf of the Corporation during the period from the close of business on September 30, 2021 through March 31, 2022, subject to certain price, market and volume constraints specified in the agreement. The agreement was established in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (Exchange Act). The shares will be purchased pursuant to the Corporation's previously announced stock repurchase program and in a manner consistent with applicable laws and regulations, including the provisions of the safe harbor contained in Rule 10b-18 under the Exchange Act.

The acquisition of New Windsor Bancorp, Inc. resulted in 938,360 new ACNB shares issued to the New Windsor Bancorp, Inc. stockholders valued at $28,620,000 in 2017. The acquisition of FCBI resulted in 1,590,547 new ACNB shares of common stock issued to the FCBI stockholders valued at $57,721,000.

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

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital to average assets. The federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The phase-in period for community banking organizations began January 1, 2015, while larger institutions (generally those with assets of $250 billion or more) began compliance effective January 1, 2014. The final rules call for the following capital requirements:

- a minimum ratio of common Tier 1 capital to risk-weighted assets of 4.5%;

- a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%;
- a minimum ratio of total capital to risk-weighted assets of 8.0%; and,
- a minimum leverage ratio of 4.0%.

In addition, the final rules establish a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The 2.5% (after a 0.625% per year phase-in period) for the capital conservation and countercyclical capital buffers for all banking organizations began on January 1, 2016. The required capital conservation buffer was 2.5% at December 31, 2021.

Management believes, as of December 31, 2021, that the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2021, the most recent notification from the federal banking regulators categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no subsequent conditions or events that management believes have changed the Bank's category.

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

Dollars in thousands	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount (1)	For Capital Adequacy Purposes Ratio (1)	To be Well Capitalized under Prompt Corrective Action Provisions Amount	To be Well Capitalized under Prompt Corrective Action Provisions Ratio
CORPORATION						
As of December 31, 2021						
Tier 1 leverage ratio (to average assets)	**$ 249,574**	**8.91 %**	**$ ≥112,027**	**≥4.0%**	**N/A**	**N/A**
Common Tier 1 risk-based capital ratio (to risk-weighted assets)	**243,574**	**16.08**	**≥68,174**	**≥4.5**	**N/A**	**N/A**
Tier 1 risk-based capital ratio (to risk-weighted assets)	**249,574**	**16.47**	**≥90,899**	**≥6.0**	**N/A**	**N/A**
Total risk-based capital ratio (to risk-weighted assets)	**283,511**	**18.71**	**≥121,199**	**≥8.0**	**N/A**	**N/A**
As of December 31, 2020						
Tier 1 leverage ratio (to average assets)	$ 224,605	8.90 %	$ ≥100,892	≥4.0%	N/A	N/A
Common Tier 1 risk-based capital ratio (to risk-weighted assets)	224,605	13.68	≥73,873	≥4.5	N/A	N/A
Tier 1 risk-based capital ratio (to risk-weighted assets)	224,605	13.68	≥98,498	≥6.0	N/A	N/A
Total risk-based capital ratio (to risk-weighted assets)	244,831	14.91	≥131,330	≥8.0	N/A	N/A
BANK						
As of December 31, 2021						
Tier 1 leverage ratio (to average assets)	**$ 246,259**	**8.81 %**	**$ ≥111,766**	**≥4.0%**	$ ≥ 139,708	**≥5.0 %**
Common Tier 1 risk-based capital ratio (to risk-weighted assets)	**246,259**	**16.32**	**≥67,906**	**≥4.5**	≥98,086	**≥6.5**
Tier 1 risk-based capital ratio (to risk-weighted assets)	**246,259**	**16.32**	**≥90,541**	**≥6.0**	≥120,722	**≥8.0**
Total risk-based capital ratio (to risk-weighted assets)	**265,126**	**17.57**	**≥120,722**	**≥8.0**	≥150,902	**≥10.0**
As of December 31, 2020						
Tier 1 leverage ratio (to average assets)	$ 226,800	9.01 %	$ ≥100,654	≥4.0%	$ ≥125,818	≥5.0 %
Common Tier 1 risk-based capital ratio (to risk-weighted assets)	226,800	13.86	≥73,638	≥4.5	≥106,366	≥6.5
Tier 1 risk-based capital ratio (to risk-weighted assets)	226,800	13.86	≥98,184	≥6.0	≥130,912	≥8.0
Total risk-based capital ratio (to risk-weighted assets)	247,119	15.10	≥130,912	≥8.0	≥163,640	≥10.0

(1) Amounts and ratios do not include capital conservation buffer.

NOTE O — FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

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

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and similar transactions. The terms of the letters of credit vary and may have renewal features. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Corporation generally holds collateral and/or personal guarantees supporting those commitments for which collateral is deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral and the enforcement of guarantees would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2021 and 2020, for guarantees under standby letters of credit issued is not material.

In 2018, ACNB Corporation executed a guaranty for a note related to a $1,500,000 commercial line of credit from a local bank, with normal terms and conditions for such a line, for ACNB Insurance Services, Inc., the borrower and a wholly-owned subsidiary of ACNB Corporation. The commercial line of credit is for general working capital needs as they arise by the borrower. A subsequent draw taken was reduced to $0 in 2020 on this commercial line of credit since its inception. The liability is recorded for the net drawn amount of this line, no further liability is recorded for the remaining line as to the guarantor's obligation as the guarantor would have full recourse from all assets of its wholly-owned subsidiary.

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

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

In thousands	2021	2020
Commitments to extend credit	**$ 365,320**	$ 367,561
Standby letters of credit	**9,014**	8,105

NOTE P — CONTINGENCIES

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

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

STATEMENTS OF CONDITION

In thousands	December 31, 2021	December 31, 2020
ASSETS		
Cash	**$ 13,451**	$ 6,397
Investment in banking subsidiary	**266,983**	252,107
Investment in other subsidiaries	**11,807**	11,141
Securities and other assets	**2,549**	2,203
Receivable from banking subsidiary	**1,197**	1,251
Total Assets	**$ 295,987**	$ 273,099
LIABILITIES AND STOCKHOLDERS' EQUITY		
Long-term debt	**$ 23,700**	$ 15,029
Other liabilities	**173**	98
Stockholders' equity	**272,114**	257,972
Total Liabilities and Stockholders' Equity	**$ 295,987**	$ 273,099

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

In thousands	Years Ended December 31, 2021	Years Ended December 31, 2020
Dividends from banking subsidiary	**$ 8,968**	$ 8,685
Other income	**554**	83
	9,522	8,768
Expenses	**1,649**	1,845
	7,873	6,923
Income tax benefit	**511**	587
	8,384	7,510
Equity in undistributed earnings of subsidiaries	**19,450**	10,884
Net Income	**$ 27,834**	$ 18,394
Comprehensive Income	**$ 23,927**	$ 18,609

STATEMENTS OF CASH FLOWS

In thousands	Years Ended December 31, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 27,834**	$ 18,394
Equity in undistributed earnings of subsidiaries	**(19,450)**	(10,884)
Decrease (Increase) in receivable from banking subsidiary	**54**	(439)
(Loss) Gain on equity securities	**(468)**	213
Other	**555**	647
Net Cash Provided by Operating Activities	**8,525**	7,931
CASH FLOWS FROM INVESTING ACTIVITIES		
	—	—
Net Cash Used in Investing Activities	**—**	—
CASH FLOWS USED IN FINANCING ACTIVITIES		
Proceeds from long-term debt	**15,000**	—
Repayments on long-term debt	**(6,329)**	(501)
Payment to repurchase common stock	**(1,517)**	—
Proceeds from issuance of common stock	**343**	824
Dividends paid	**(8,968)**	(8,685)
Net Cash Used in Financing Activities	**(1,471)**	(8,362)
Net Increase (Decrease) in Cash and Cash Equivalents	**7,054**	(431)
CASH AND CASH EQUIVALENTS — BEGINNING	**6,397**	6,828
CASH AND CASH EQUIVALENTS — ENDING	**$ 13,451**	$ 6,397
Transactions related to acquisition		
Increase in assets and liabilities:		
Securities	**$ —**	$ (257)
Other assets	**—**	(733)
Trust preferred debentures	**—**	6,000
Long term borrowings	**—**	2,700
Common shares issued	**—**	57,280

NOTE R — GOODWILL AND OTHER INTANGIBLES

On January 5, 2005, ACNB Corporation completed its acquisition of Russell Insurance Group, Inc. (now ACNB Insurance Services, Inc.) of Westminster, Maryland. The acquisition of ACNB Insurance Services, Inc. resulted in goodwill of approximately $6,308,000.

On July 1, 2017, ACNB Corporation completed its acquisition of New Windsor Bancorp Inc. (New Windsor) of Taneytown, Maryland. The acquisition of New Windsor resulted in goodwill of approximately $13,272,000 and generated $2,418,000 in core deposit intangibles.

On January 11, 2020, ACNB Corporation completed its acquisition of Frederick County Bancorp, Inc. (FCBI) of Frederick, Maryland. The acquisition of FCBI resulted in good will of approximately $22,528,000 and generated $3,560,000 in core deposit intangibles.

Combined goodwill included in the Corporation's consolidated statement of condition is $42,108,000. Goodwill, which has an indefinite useful life, is evaluated for impairment annually and is evaluated for impairment more frequently if events and circumstances indicate that the asset might be impaired. The Corporation did not identify any goodwill impairment on ACNB Insurance Services, Inc. or the Bank's outstanding goodwill from its most recent testing. There are no impairment losses associated with goodwill as of December 31, 2021 and 2020. Additionally, there are no accumulated impairment losses associated with goodwill as of December 31, 2021 and 2020.

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

The carrying value and accumulated amortization of the intangible assets and core deposit intangibles are as follows:

	2021		2020	
Dollars in thousands	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
ACNB Insurance Services, Inc. amortized intangible assets	**$ 10,428**	**$ 7,448**	$ 10,428	$ 7,152
New Windsor core deposit intangibles	**2,418**	**1,627**	2,418	1,341
FCBI core deposit intangibles	**3,560**	**1,230**	3,560	648
	$ 16,406	**$ 10,305**	$ 16,406	$ 9,141

Amortization expense was $1,164,000 and $1,264,000 for the years ended December 31, 2021 and 2020, respectively.

Amortization of the intangible assets for the five years subsequent to December 31, 2021, is expected to be as follows:

Years Ending	In thousands
2022	$ 1,056
2023	947
2024	830
2025	707
2026	617
Thereafter	1,944
	$ 6,101

NOTE S — SEGMENT AND RELATED INFORMATION

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

Segment information for 2021 and 2020 is as follows:

In thousands	Banking	Insurance	Total
2021			
Net interest income and other income from external customers	**$ 88,002**	**$ 5,928**	**$ 93,930**
Income before income taxes	**34,099**	**920**	**35,019**
Total assets	**2,774,449**	**12,538**	**2,786,987**
Capital expenditures	**1,561**	**15**	**1,576**
2020			
Net interest income and other income from external customers	$ 87,244	$ 5,758	$ 93,002
Income before income taxes	21,778	924	22,702
Total assets	2,541,559	13,803	2,555,362
Capital expenditures	1,018	30	1,048

NOTE T — ACQUISITION

On January 11, 2020, ACNB completed its previously announced acquisition of Frederick County Bancorp, Inc. (FCBI) of Frederick, Maryland. FCBI was a locally owned and managed institution with five locations in Frederick County, Maryland. The acquisition positioned ACNB Corporation for continual and profitable growth in a desirable market that is adjacent to the Corporation’s current footprint in southcentral Pennsylvania and central Maryland. ACNB transacted the merger to complement the Corporation’s existing operations, while consistent with the Corporation’s strategic plan of enhancing long-term stockholder value. The fair value of total assets acquired as a result of the merger totaled $443.4 million, loans totaled $329.3 million and deposits totaled $374.1 million.

Goodwill recorded in the merger was $22.5 million. In accordance with the terms of the Reorganization Agreement, each share of FCBI common stock was converted into the right to receive 0.9900 shares of ACNB common stock. As a result of the merger, ACNB issued 1,590,547 shares of its common stock and cash in exchange for fractional shares based upon $36.43, the determined market price of ACNB common stock in accordance with the Reorganization Agreement. The results of the combined entity’s operations are included in the Corporation’s Consolidated Financial Statements from the date of acquisition.

The acquisition of FCBI 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 FCBI and the fair value of assets acquired and liabilities assumed as of the acquisition date:

Purchase Price Consideration in Common Stock

FCBI shares outstanding		1,601,764
Shares paid in cash for fractional shares		150.88
Cash consideration (per share)	$	36.43
Cash portion of purchase price (cash payout of stock options and cash in lieu of fractional shares)	$	100,798
FCBI shares outstanding		1,601,764
Shares paid stock consideration		1,601,613
Exchange ratio		0.9900
Total ACNB shares issued		1,585,597
ACNB’s share price for purposes of calculation	$	36.34
Equity portion of purchase price	$	57,620,595
Cost of shares owned by buyer	$	187,200
Total consideration paid	$	57,908,593

Allocation of Purchase Price	In thousands		
Total Purchase Price		$	57,909
Fair Value of Assets Acquired			
Cash and cash equivalents	35,262		
Investment securities	22,167		
Loans held for sale	4,050		
Loans	329,312		
Restricted stock	1,141		
Premises and equipment	10,959		
Core deposit intangible asset	3,560		
Other assets	14,446		
Total assets	420,897		
Fair Value of Liabilities Assumed			
Non-interest bearing deposits	103,492		
Interest bearing deposits	270,566		
Subordinated debt	6,000		
Long term borrowings	3,450		
Other liabilities	2,008		
Total liabilities	385,516		
Net Assets Acquired			35,381
Goodwill Recorded in Acquisition		$	22,528

Pursuant to the accounting requirements, the Corporation assigned a fair value to the assets acquired and liabilities assumed of FCBI. 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 assets acquired and liabilities assumed in the acquisition of FCBI were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. While the fair values are not expected to be materially different from the estimates, any material adjustments to the estimates will be reflected, retroactively, as of the date of the acquisition. The items most susceptible to adjustment are the fair value adjustments on loans, core deposit intangible and the deferred income tax assets resulting from the acquisition.

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 $163,000 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, 2) a general credit fair value adjustment, and 3) a specific credit fair value adjustment for purchased credit impaired loans subject to ASC 310-30 procedures. The acquired loans were recorded at fair value at the acquisition date without carryover of FCBI'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 $339,577,000. 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 January 11, 2020	$	339,577
Interest rate fair value adjustment on pools of homogeneous loans		(2,632)
Credit fair value adjustment on pools of homogeneous loans		(5,931)
Credit fair value adjustment on purchased credit impaired loans		(1,702)
Fair value of acquired loans at January 11, 2020	$	329,312

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 $2.6 million.

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, FCBI 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 $5.3 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	$	4,289
Nonaccretable difference		(2,361)
Expected cash flows at acquisition		1,928
Accretable yield		(354)
Fair value of purchased impaired loans	$	1,574

The Corporation acquired five branches of FCBI. The fair value of FCBI'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 premium of approximately $255,000 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 using a discounted cash flow method using a market participant discount rate for similar instruments. The trust preferred capital note was valued at discount of $854,000, 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 FCBI had been acquired on September 30, 2019. 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 September 30, 2019. In particular, no adjustments have been made to eliminate the amount of FCBI's provision for loan losses that would not have been necessary had the acquired loans been recorded at fair value as of September 30, 2019. 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:

In thousands	For the Nine Months Ended September 30, 2019	
Total revenues (net interest income plus non-interest income)	$	72,281
Net Income		22,138

Acquisition-related expenses associated with the acquisition of FCBI were $6.0 million for 2020. 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.

NOTE U — REVENUE RECOGNITION

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

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

Income from fiduciary, investment management and brokerage activities - ACNB Bank's Trust & Investment Services, under the umbrella of ACNB Wealth Management, provides a wide range of financial services, including trust services for individuals, businesses and retirement funds. Other services include, but are not limited to, those related to testamentary trusts, life insurance trusts, charitable remainder trusts, guardianships, power of attorney, custodial accounts and investment management and advisor accounts. In addition, ACNB's Wealth Management Department offers retail brokerage-services through a third party provider. Wealth Management clients are located primarily within the Corporation's geographic markets. Assets held by the Corporation's Wealth Management Department, including trust and retail brokerage, in an agency, fiduciary or retail brokerage capacity for its customers are excluded from the consolidated financial statement since they do not constitute assets of the Corporation. Assets held by the Wealth Management Department amounted to $537,800,000 and $436,700,000 at December 31, 2021 and 2020, respectively. Income from fiduciary, investment management and brokerage activities are included in other income.

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

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

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

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

None.

ITEM 9A—CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

Based on the evaluation of the effectiveness of the design and operation of the disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation’s disclosure controls and procedures were effective as of December 31, 2021. The Corporation believes that the accompanying consolidated financial statements fairly present the financial condition and results of operations for the fiscal years presented in this report on Form 10-K.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Management assessed the effectiveness of ACNB's internal control over financial reporting as of December 31, 2021. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its *Internal Control—Integrated Framework (2013)*. Based on our assessment, management concluded that as of December 31, 2021, ACNB's internal control over financial reporting is effective and meets the criteria of the *Internal Control—Integrated Framework (2013)*.

/s/ JAMES P. HELT	/s/ DAVID W. CATHELL
James P. Helt President & Chief Executive Officer	David W. Cathell Executive Vice President/Treasurer & Chief Financial Officer

Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors
ACNB Corporation and Subsidiaries

Opinion on the Internal Control Over Financial Reporting
We have audited ACNB Corporation and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company and our report dated March 14, 2022 expressed an unqualified opinion.

Basis for Opinion
The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

/s/ RSM US LLP

Philadelphia, Pennsylvania
March 14, 2022

ITEM 9B—OTHER INFORMATION

None.

ITEM 9C—DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not Applicable.

PART III

ITEM 10—DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10, relating to directors, executive officers, and control persons, is set forth in sections “Information as to Nominees and Directors”, “Executive Officers of ACNB Corporation”, “Meetings and Committees of the Board of Directors”, “Audit Committee Report” and “Section 16(a) Beneficial Ownership Reporting Compliance” of ACNB Corporation’s definitive Proxy Statement to be used in connection with the 2022 Annual Meeting of Stockholders, which pages are incorporated herein by reference.

The Corporation first adopted a Code of Ethics that applies to directors, officers and employees of the Corporation and its subsidiaries in 2003. A copy of the Code of Ethics, as most recently approved by the Corporation’s Board of Directors on February 23, 2021, is available under the Governance Documents section of the Corporation’s Investor Relations website at investor.acnb.com. A request for the Corporation’s Code of Ethics can be made either in writing to Lynda L. Glass, Executive Vice President/Secretary & Chief Governance Officer, ACNB Corporation, 16 Lincoln Square, P.O. Box 3129, Gettysburg, Pennsylvania 17325 or by telephone at 717-334-3161.

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

ITEM 11—EXECUTIVE COMPENSATION

Incorporated by reference in response to this Item 11 is the information appearing under the headings “Executive Compensation” and “Potential Payments Upon Termination or Change In Control” in ACNB Corporation’s 2022 definitive Proxy Statement.

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

Incorporated by reference in response to this Item 12 is the information appearing under the heading “Share Ownership” in ACNB Corporation’s 2022 definitive Proxy Statement.

The following table provides information about shares of the Corporation’s stock that may be issued under existing equity compensation plans as of December 31, 2021:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	—	$ —	**538,468**
Equity compensation plans not approved by security holders	—	—	—
Total	—	$ —	**538,468**

ITEM 13—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Incorporated by reference in response to this Item 13 is the information appearing under the headings “Transactions with Directors and Executive Officers” and “Governance of the Corporation” in ACNB Corporation’s 2022 definitive Proxy Statement.

ITEM 14—PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference in response to this Item 14 is the information appearing under the heading “Independent Auditors” in ACNB Corporation’s 2022 definitive Proxy Statement.

PART IV

ITEM 15—EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. FINANCIAL STATEMENTS

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

- Report of Independent Registered Public Accounting Firm
- Consolidated Statements of Condition
- Consolidated Statements of Income
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Changes in Stockholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

2. FINANCIAL STATEMENT SCHEDULES

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

3. THE EXHIBITS FILED HEREWITH OR INCORPORATED BY REFERENCE AS A PART OF THIS ANNUAL REPORT ARE SET FORTH IN (b) BELOW.

(b) EXHIBITS

The following exhibits are included in this report:

Exhibit 2.1	Agreement and Plan of Reorganization by and among ACNB Corporation, ACNB South Acquisition Subsidiary, LLC, ACNB Bank, New Windsor Bancorp, Inc., and New Windsor State Bank dated as of November 21, 2016, as amended. (Incorporated by reference to Annex A of the Registrant's Registration Statement No. 333-215914 on Form S-4, filed with the Commission on February 6, 2017.) Schedules are omitted; the Registrant agrees to furnish copies of Schedules to the Securities and Exchange Commission upon request.
Exhibit 2.2	Amendment No. 2 to Agreement and Plan of Reorganization by and among ACNB Corporation, ACNB South Acquisition Subsidiary, LLC, ACNB Bank, New Windsor Bancorp, Inc., and New Windsor State Bank dated as of April 18, 2017. (Incorporated by reference to Exhibit 2.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed with the Commission on August 4, 2017.)
Exhibit 2.3	Agreement and Plan of Reorganization by and among ACNB Corporation, ACNB South Acquisition Subsidiary, LLC, ACNB Bank, Frederick County Bancorp, Inc. and Frederick County Bank dated as of July 1, 2019. (Incorporated by reference to Annex A of the Registrant's Registration Statement No. 333-233791 on Form S-4, filed with the Commission on September 16, 2019.) Schedules are omitted; the Registrant agrees to furnish copies of Schedules to the Securities and Exchange Commission upon request.
Exhibit 3(i)	Amended and Restated Articles of Incorporation of ACNB Corporation. (Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on May 7, 2018.)
Exhibit 3(ii)	Amended and Restated Bylaws of ACNB Corporation. (Incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 27, 2020.)
Exhibit 4.1	Form of ACNB Corporation 4.00% Fixed-to-Floating Rate Subordinated Note due March 31, 2031. (Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on March 30, 2021.)

Exhibit 10.1	ACNB Corporation, ACNB Acquisition Subsidiary LLC, and Russell Insurance Group, Inc. Stock Purchase Agreement. (Incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission on March 15, 2005.)
Exhibit 10.2	Amended and Restated Executive Supplemental Life Insurance Plan — Applicable to James P. Helt, David W. Cathell and Lynda L. Glass. (Incorporated by reference to Exhibit 10.3 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Commission on March 6, 2015.)
Exhibit 10.3	Amended and Restated Director Supplemental Life Insurance Plan — Applicable to Kimberly S. Chaney, Frank Elsner, III, Todd L. Herring, Scott L. Kelley, James J. Lott, Donna M. Newell, Daniel W. Potts, Marian B. Schultz, D. Arthur Seibel, Jr., David L. Sites, Alan J. Stock and James E. Williams. (Incorporated by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Commission on March 6, 2015.)
Exhibit 10.4	Amended and Restated Director Deferred Fee Plan — Applicable to Frank Elsner, III, Todd L. Herring, Scott L. Kelley, James J. Lott, Marian B. Schultz, Alan J. Stock and James E. Williams. (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on January 6, 2012.)
Exhibit 10.5	ACNB Bank Salary Savings Plan. (Incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Commission on March 12, 2010.)
Exhibit 10.6	Group Pension Plan for Employees of ACNB Bank. (Incorporated by reference to Exhibit 10.7 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed with the Commission on May 4, 2012.)
Exhibit 10.7	Amended and Restated Employment Agreement between ACNB Corporation, Adams County National Bank and Lynda L. Glass dated as of December 31, 2008. (Incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Commission on March 13, 2009.)
Exhibit 10.8	Employment Agreement between ACNB Corporation, Adams County National Bank and David W. Cathell dated as of April 17, 2009. (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 23, 2009.)
Exhibit 10.9	2009 Restricted Stock Plan. (Incorporated by reference to Appendix C of the Registrant's Definitive Proxy Statement on Schedule 14A, filed with the Commission on March 25, 2009.)
Exhibit 10.10	Salary Continuation Agreement by and between ACNB Bank and Thomas A. Ritter dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.11	Salary Continuation Agreement by and between ACNB Bank and Lynda L. Glass dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.12	Salary Continuation Agreement by and between ACNB Bank and David W. Cathell dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.3 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.13	Amended and Restated 2001 Salary Continuation Agreement by and between ACNB Bank and Thomas A. Ritter dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.4 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.14	Amended and Restated 1996 Salary Continuation Agreement by and between ACNB Bank and Lynda L. Glass dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.5 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.15	Salary Continuation Agreement by and between ACNB Bank and James P. Helt dated as of March 28, 2012. (Incorporated by reference to Exhibit 10.20 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Commission on March 7, 2014.)
Exhibit 10.16	ACNB Bank Variable Compensation Plan effective January 1, 2014, as amended.
Exhibit 10.17	Form of ACNB Bank Variable Compensation Plan Restricted Stock Agreement dated as of June 22, 2015. (Incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 8-K, filed with the Commission on June 25, 2015.)

Exhibit 10.18	Form of ACNB Bank Variable Compensation Plan Restricted Stock Agreement dated as of June 15, 2016. (Incorporated by reference to Exhibit 99.3 of the Registrant’s Current Report on Form 8-K, filed with the Commission on June 21, 2016.)
Exhibit 10.19	First Amendment to the Amended and Restated Employment Agreement by and between ACNB Corporation, ACNB Bank and Lynda L. Glass as of December 27, 2016. (Incorporated by reference to Exhibit 99.2 of the Registrant’s Current Report on Form 8-K, filed with the Commission on December 28, 2016.)
Exhibit 10.20	First Amendment to Employment Agreement by and between ACNB Corporation, ACNB Bank and David W. Cathell as of December 27, 2016. (Incorporated by reference to Exhibit 99.3 of the Registrant’s Current Report on Form 8-K, filed with the Commission on December 28, 2016.)
Exhibit 10.21	Form of ACNB Bank Variable Compensation Plan Restricted Stock Agreement dated as of June 15, 2017. (Incorporated by reference to Exhibit 99.3 of the Registrant’s Current Report on Form 8-K, filed with the Commission on June 21, 2017.)
Exhibit 10.22	Amended and Restated Employment Agreement between ACNB Corporation, ACNB Bank and James P. Helt dated as of August 14, 2018. (Incorporated by reference to Exhibit 10.25 of the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, filed with the Commission on November 2, 2018.)
Exhibit 10.23	2018 Omnibus Stock Incentive Plan. (Incorporated by reference to Exhibit A of the Registrant’s Definitive Proxy Statement on Schedule 14A, filed with the Commission on March 27, 2018.)
Exhibit 10.24	Form of ACNB Bank Variable Compensation Plan Restricted Stock Agreement for Employees dated as of June 14, 2019. (Incorporated by reference to Exhibit 99.3 of the Registrant’s Current Report on Form 8-K, filed with the Commission on June 20, 2019.)
Exhibit 10.25	Form of ACNB Bank Variable Compensation Plan Restricted Stock Agreement for Non-Employee Directors dated as of June 14, 2019. (Incorporated by reference to Exhibit 99.4 of the Registrant’s Current Report on Form 8-K, filed with the Commission on June 20, 2019.)
Exhibit 10.26	Form of ACNB Bank Variable Compensation Plan Restricted Stock Agreement for Employees dated as of June 15, 2020. (Incorporated by reference to Exhibit 99.3 of the Registrant’s Current Report on Form 8-K, filed with the Commission on June 19, 2020.)
Exhibit 10.27	Form of ACNB Bank Variable Compensation Plan Restricted Stock Agreement for Non-Employee Directors dated as of June 15, 2020. (Incorporated by reference to Exhibit 99.4 of the Registrant’s Current Report on Form 8-K, filed with the Commission on June 19, 2020.)
Exhibit 10.28	Form of Exhibit B Split Dollar Policy Endorsement to the Amended and Restated Director Supplemental Life Insurance Plan dated November 27, 2018. (Incorporated by reference to Exhibit 99.4 of the Registrant’s Current Report of Form 8-K, filed with the Commission on November 28, 2018.)
Exhibit 10.29	Salary Continuation Agreement by and between ACNB Bank and James P. Helt dated as of November 27, 2018. (Incorporated by reference to Exhibit 99.1 of the Registrant’s Current Report on Form 8-K, filed with the Commission on November 28, 2018.)
Exhibit 10.30	Form of Subordinated Note Purchase Agreement dated March 30, 2021, by and among ACNB Corporation and the Purchasers. (Incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K, filed with the Commission on March 30, 2021.)
Exhibit 18	Preferability Letter from ParenteBeard LLC dated as of August 3, 2012. (Incorporated by reference to Exhibit 18 of the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the Commission on August 3, 2012.)
Exhibit 21	Subsidiaries of the Registrant.
Exhibit 23.1	Consent of RSM US LLP.
Exhibit 31.1	Chief Executive Officer Certification of Annual Report on Form 10-K.
Exhibit 31.2	Chief Financial Officer Certification of Annual Report on Form 10-K.
Exhibit 32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase.

Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
Exhibit 101.INS	XBRL Instance Document – The Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase.
Exhibit 104	Cover Page Interactive Date File (formatted as Inline XBRL and contained in Exhibit 101).

ITEM 16—FORM 10-K SUMMARY

None.

SIGNATURES

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

ACNB CORPORATION (Registrant)	March 14, 2022 Date

By: /s/ JAMES P. HELT
James P. Helt
President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 14, 2022, by the following persons in the capacities indicated.

/s/ DAVID W. CATHELL	/s/ JAMES P. HELT
David W. Cathell Executive Vice President/ Treasurer & Chief Financial Officer (Principal Financial Officer)	James P. Helt Director and President & Chief Executive Officer
/s/ KIMBERLY S. CHANEY	/s/ DANIEL W. POTTS
Kimberly S. Chaney Director	Daniel W. Potts Director
/s/ FRANK ELSNER, III	/s/ MARIAN B. SCHULTZ
Frank Elsner, III Director	Marian B. Schultz Director
/s/ TODD L. HERRING	/s/ D. ARTHUR SEIBEL, JR.
Todd L. Herring Director and Vice Chairman of the Board	D. Arthur Seibel, Jr. Director
/s/ SCOTT L. KELLEY	/s/ DAVID L. SITES
Scott L. Kelley Director	David L. Sites Director
/s/ JAMES J. LOTT	/s/ ALAN J. STOCK
James J. Lott Director	Alan J. Stock Director and Chairman of the Board
/s/ DONNA M. NEWELL	/s/ JAMES E. WILLIAMS
Donna M. Newell Director	James E. Williams Director

EXHIBIT 10.16

ACNB Bank Variable Compensation Plan

Developed By:

Compensation Committee ACNB Corporation Gettysburg, Pennsylvania

Effective Date:

January 1, 2014

Amendment Effective Date:

March 1, 2022

Contents

I. Purpose

The purpose of the **Variable Compensation Plan** is to make the potential to earn additional compensation available to directors and employees who, through high levels of performance, contribute to the long-term success and profitability of ACNB Corporation and its banking subsidiary, ACNB Bank. The Plan and its guidelines are designed to support the Bank's organizational objectives and financial goals, as defined by the ACNB Corporation Strategic and Financial Plans, by making available additional, variable and contingent compensation, in the form of cash awards, equity awards (in the form of ACNB Corporation shares), or both.

II. General Description

Before any Variable Compensation Award is made available under the Plan, the Bank must achieve certain financial Targets and the Participant and/or the Bank must achieve other defined objectives. The Plan sets forth goals that are intended to be consistent with those contained in the ACNB Corporation Strategic Plan and Financial Plan for ACNB Bank.

The calculation of the share of the awards that may be distributed to the Participants and the Targets and award formulas are constructed to align the interests of the Participants with those of the shareholders of the Company. The Targets and award formulas support a level of Variable Compensation Awards that enables the Company and the Bank to attract, retain and motivate high- quality directors and personnel, as well as supports the continued growth and profitability of the Bank and the Company.

The Plan is established to augment regular compensation, salary and/or benefits programs already in existence. The Plan is not meant to be a substitute for compensation increases, but supplemental to compensation or base salary and, as stated, a reward for performance that contributes to outstanding levels of long-term achievement.

III. Definition of Terms

A. “Bank” shall mean ACNB Bank.

B. “Board” means the Boards of Directors of the Company and of the Bank.

C. “Company” shall mean ACNB Corporation.

D. “Financial Plan” shall mean the profit plan, including quantitative objectives, established for the Bank.

E. “Participant” shall mean the eligible director or employee selected under Section V of this Plan for participation in the Plan.

F. “Plan” shall mean the Variable Compensation Plan.

G. “Plan Year” shall mean a full or partial calendar year in which the Plan is in effect, unless otherwise specified.

H. “Supplementary Plan Documents” shall include any document entitled Supplementary Plan Document(s), any Variable Compensation Plan Restricted Stock Agreement, and any other document used to effectuate the intent of the Plan.

I. “Target” shall mean any annual performance factor goal, consistent with the Strategic Plan for the Bank, the attainment of which is integrated with the potential granting of Variable Compensation Awards.

J. “Variable Cash Award” shall mean the cash component of the Variable Compensation Award.

K. “Variable Compensation Award” shall mean the amount of any cash or equity awards approved for distribution to Participants for any Plan Year, as approved by the Company’s and the Bank’s Boards of Directors.

L. “Variable Equity Award” shall mean the equity component of the Variable Compensation Award.

IV. Plan Administration

The Board shall have the sole and complete authority regarding all matters pertaining to the approval of the Plan, supplements or revisions to the Plan, rules or guidelines established to administer the Plan, termination of the Plan, and corrections of any defect or omission or reconciliation of any inconsistency in the Plan, any Variable Compensation Award, or annual performance Targets.

The Board has delegated authority for the ongoing administration and interpretation of the Plan to the Compensation Committee. The actions of the Board and the Compensation Committee affecting the construction, interpretation, administration or application of the Plan shall be final, conclusive and binding on all parties, including the Company, the Bank, all directors, all employees, and Participants. Matters before the Board or Compensation Committee shall be decided upon a majority vote of the Board or Compensation Committee.

The Board may review and revise the Plan's guidelines or the operating rules at any time. Performance measures and awards based upon those measures may be adjusted in order to emphasize specific goals and objectives of the Plan. It is expected that the Plan guidelines will require modification only when significant changes in organization, goals, personnel or performance occur.

Computation of potential individual incentive awards will be made by the Chief Executive Officer or his or her designee, consistent with the guidelines documented herein, and presented to the Compensation

Committee for consideration. Maintenance of Participant payments and other related records shall be the joint responsibility of the Human Resources Manager and Chief Financial Officer or his or her designee.

Extraordinary occurrences may be considered when calculating performance results to insure that the best interests of the Company, the Bank, and the Company’s shareholders are protected and are not brought into conflict with the interests of the Participants. In accordance with the authority delegated to the Compensation Committee with respect to the administration and interpretation of the Plan, the Compensation Committee may take into account the presence or absence of nonrecurring or extraordinary items of income, gain, expense or loss, and any and all factors which it may deem relevant, before recommending Variable Compensation Awards for any given Plan Year to the Board.

No member of the Board or Compensation Committee shall be liable for any determination, decision or action made in good faith with respect to this Plan.

V. Plan Participation

A. Participation in the Plan is limited to selected directors, officers and employees of the Bank. The individual must have been a director or employed by the Bank prior to July 1 of the Plan Year in order to be eligible for participation in the Plan.

B. The following is a summary of the positions which may be, but are not required to be, selected for participation in the Plan.

Tier	Participants
#1	Directors
#2	Chief Executive Officer/President
#3	Executive Vice Presidents
#4	Senior Vice Presidents
#5	First Vice Presidents
#6	Vice Presidents
#7	All Other Employees

C. No Variable Compensation Award shall be made to any Participant of employee status who does not receive at least an overall rating of “Meets Expectations” on his or her most recent individual performance appraisal prior to the Plan Year award.

D. The Participant must also meet certain other eligibility criteria set by the Board at its discretion.

VI. Operating Rules

A. The Plan shall be effective as of January 1, 2014, with the first Plan Year being calendar year 2014.

B. The Board may amend, suspend or terminate the Plan at any time with or without notice.

C. Supplementary Plan Documents relating to Participants, Targets, and other pertinent matters will be prepared and approved by the Board for the beginning of each Plan Year or as early in the Plan Year as possible.

D. Awards will not be paid if the CAMELS composite rating for ACNB Bank falls below a “2”.

E. Variable Compensation Awards will not be considered if, in the sole judgment of the Board, the dividend payout for ACNB Corporation shareholders is not reasonable or competitive.

F. Variable Compensation Awards will not vest until the later of (a) the date provided in any vesting schedule contained in the Supplementary Plan Documents, including the Variable Compensation Plan Restricted Stock Agreement, related to a specific Variable Compensation Award or (b) the date the Board approves the Variable Compensation Award.

G. No right or interest of any Participant in the Plan shall be assignable or transferable, or subject to any lien, directly, by operation of law, or otherwise, including levy, garnishment, attachment, pledge or bankruptcy.

A. Eligible Participants will receive their Variable Compensation Awards no later than March 15 following the end of a Plan Year.

B. An award or participation under the Plan shall not confer any right on the Participant to continue in service or in the employ of the Company or Bank or limit in any way the right of the Company or Bank to terminate the Participant's service or employment at any time.

C. The receipt of a Variable Compensation Award for any one year shall not guarantee a director or an employee the right to receive an award for any subsequent year.

D. The Company or Bank shall deduct from payments made under this Plan any federal, state or local taxes, or other deductions required to be withheld, with respect to such payments.

E. Should a Participant's service or employment be terminated for any reason, including death and retirement, prior to the date on which a Variable Compensation Award is actually paid, he or she shall not be eligible to receive the Variable Compensation Award, unless otherwise determined by the Board and the Compensation Committee.

F. Equity awards granted under this Plan shall be granted under and in accordance with the ACNB Corporation 2018 Omnibus Stock Incentive Plan, any successor plan, or any similar plan under which equity awards may be granted.

G. Any payments made pursuant to this Plan are intended to be payable pursuant to the "short-term deferral" rule set forth in Treas. Reg. §1.409A-1(b)(4) and not a deferral of compensation. The parties hereto intend that any and all compensation under this Plan satisfy the requirements of Section 409A or an exception or exclusion therefrom to avoid the imposition of any accelerated or additional taxes pursuant to Section 409A.

H. In the event that the Company or Bank is required to prepare an accounting restatement because of the material noncompliance of the Company or Bank with any financial reporting requirement and, if within the previous three years from the date of the restatement, a Participant received a Variable Compensation Award based upon the erroneous data, the Participant shall return and refund to the Bank the excess of what would have been paid to the Participant under the accounting restatement. In the event that the Company or Bank is required to prepare an accounting restatement because of a Participant’s misconduct or fraudulent activity, then the Participant shall return and refund to the Bank the entire Variable Compensation Award received based upon the erroneous data. Additional specifics regarding clawback provisions are as determined by the Board or Compensation Committee.

VII. Summary of Plan Parameters

A. **Variable Compensation Awards**

Awards under the Plan are contingent upon the Bank and the Participant achieving established Targets and other potentially relevant factors, as determined by the Board or Compensation Committee.

B. **Performance Targets**

Targets will be established annually for several key performance factors that impact the interests of the shareholders of the Company. The Targets take into account industry peer group performance benchmarks and/or specific goals established for the Bank and the Participant. These factors give primary focus on the financial performance of the Bank, but also consider other important benchmarks such as those related to growth and risk management. The Board may establish different Targets for different Participants at its sole discretion.

C. **Variable Compensation Plan Awards**

As noted earlier in this document, the determination of Variable Compensation Awards, and the distribution of same, is at the discretion of the Board with recommendations from the Compensation Committee. Variable Cash Awards and Variable Equity Awards may be considered when the established Bank performance Targets are met, or exceeded, and when the Board, in its sole judgment, deems that the payment of such awards are in the best interests of the Company, its subsidiaries, and its shareholders.

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

The Registrant has the following subsidiaries: ACNB Bank, a Pennsylvania state-chartered commercial bank and trust company and ACNB Insurance Services, Inc., incorporated in the State of Maryland.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Forms S-3 (No. 333-171840 & No. 333-249755) and Forms S-8 (No. 333-185881 & No. 333-230148) of ACNB Corporation and Subsidiaries of our report dated March 14, 2022, relating to the consolidated financial statements of ACNB Corporation and Subsidiaries, appearing in this Annual Report on Form 10-K of ACNB Corporation and Subsidiaries for the year ended December 31, 2021.

/s/ RSM US LLP

Philadelphia, Pennsylvania
March 14, 2022

EXHIBIT 31.1

CERTIFICATION

I, James P. Helt, certify that:

1. I have reviewed this report on Form 10-K of ACNB Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2022

By: /s/ JAMES P. HELT

James P. Helt

President & Chief Executive Officer

CERTIFICATION

I, David W. Cathell, certify that:

1. I have reviewed this report on Form 10-K of ACNB Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2022

By: /s/ DAVID W CATHELL
David W. Cathell
Executive Vice President/
Treasurer & Chief Financial Officer

EXHIBIT 32.1

CHIEF EXECUTIVE OFFICER
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), I, James P. Helt, President & Chief Executive Officer of ACNB Corporation (the "Company"), hereby certify that, to the best of my knowledge, the Company's Annual Report on Form 10-K for the period ended December 31, 2021 (the "Report"):

1. Fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and,

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the year-ended December 31, 2021.

Date: March 14, 2022	By:	/s/ JAMES P. HELT
		James P. Helt
		President & Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

EXHIBIT 32.2

CHIEF FINANCIAL OFFICER
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), I, David W. Cathell, Executive Vice President/ Treasurer & Chief Financial Officer of ACNB Corporation (the "Company"), hereby certify that, to the best of my knowledge, the Company's Annual Report on Form 10-K for the period ended December 31, 2021 (the "Report"):

1. Fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and,

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the year-ended December 31, 2021.

Date: March 14, 2022	By:	/s/ DAVID W. CATHELL
		David W. Cathell *Executive Vice President/* *Treasurer & Chief Financial Officer*

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.