

Edgar Filing: AMERISERV FINANCIAL INC /PA/ - Form 10-Q

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

25-1424278
(I.R.S. Employer
Identification No.)

Main & Franklin Streets,
P.O. Box 430, Johnstown, PA
(Address of principal executive offices)

15907-0430
(Zip Code)

Registrant's telephone number, including area code **(814) 533-5300**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, non-accelerated filer or a smaller reporting company. See definition 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 is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at November 1, 2017 |
|--------------------------------|---------------------------------|
| Common Stock, par value \$0.01 | 18,273,824 |

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CONSOLIDATED BALANCE SHEETS
(In thousands except shares)
(Unaudited)

| | September 30, 2017 | December 31, 2016 |
|--|--------------------------|-------------------------|
| ASSETS | | |
| Cash and due from depository institutions | \$20,267 | \$25,107 |
| Interest bearing deposits | 2,718 | 3,066 |
| Short-term investments in money market funds | 5,690 | 5,900 |
| Total cash and cash equivalents | 28,675 | 34,073 |
| Investment securities: | | |
| Available for sale | 129,446 | 127,077 |
| Held to maturity (fair value \$39,059 on September 30, 2017 and \$30,420 on December 31, 2016) | 38,997 | 30,665 |
| Loans held for sale | 1,780 | 3,094 |
| Loans | 896,648 | 884,240 |
| Less: Unearned income | 438 | 476 |
| Allowance for loan losses | 10,346 | 9,932 |
| Net loans | 885,864 | 873,832 |
| Premises and equipment, net | 12,658 | 11,694 |
| Accrued interest income receivable | 3,503 | 3,116 |
| Goodwill | 11,944 | 11,944 |
| Bank owned life insurance | 37,716 | 37,903 |
| Net deferred tax asset | 9,255 | 10,655 |
| Federal Home Loan Bank stock | 4,429 | 3,359 |
| Federal Reserve Bank stock | 2,125 | 2,125 |
| Other assets | 4,524 | 4,243 |
| TOTAL ASSETS | \$1,170,916 | \$1,153,780 |
| LIABILITIES | | |
| Non-interest bearing deposits | \$182,396 | \$188,808 |
| Interest bearing deposits | 784,525 | 778,978 |
| Total deposits | 966,921 | 967,786 |
| Short-term borrowings | 33,593 | 12,754 |
| Advances from Federal Home Loan Bank | 44,042 | 45,542 |
| Guaranteed junior subordinated deferrable interest debentures, net | 12,919 | 12,908 |
| Subordinated debt, net | 7,459 | 7,441 |

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| | | |
|---|--------------------|--------------------|
| Total borrowed funds | 98,013 | 78,645 |
| Other liabilities | 8,872 | 11,954 |
| TOTAL LIABILITIES | 1,073,806 | 1,058,385 |
| SHAREHOLDERS EQUITY | | |
| Common stock, par value \$0.01 per share; 30,000,000 shares authorized; 26,585,403 shares issued and 18,281,224 outstanding on September 30, 2017; 26,521,291 shares issued and 18,903,472 outstanding on December 31, 2016 | 266 | 265 |
| Treasury stock at cost, 8,304,179 shares on September 30, 2017 and 7,617,819 on December 31, 2016 | (77,586) | (74,829) |
| Capital surplus | 145,704 | 145,535 |
| Retained earnings | 39,450 | 36,001 |
| Accumulated other comprehensive loss, net | (10,724) | (11,577) |
| TOTAL SHAREHOLDERS EQUITY | 97,110 | 95,395 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$1,170,916 | \$1,153,780 |

See accompanying notes to unaudited consolidated financial statements.

TABLE OF CONTENTS**AmeriServ Financial, Inc.**

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|--|---------|------------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| INTEREST INCOME | | | | |
| Interest and fees on loans | \$9,855 | \$9,462 | \$29,189 | \$28,336 |
| Interest bearing deposits | 3 | 2 | 8 | 11 |
| Short-term investments in money market funds | 42 | 31 | 93 | 54 |
| Investment securities: | | | | |
| Available for sale | 973 | 779 | 2,819 | 2,324 |
| Held to maturity | 314 | 202 | 877 | 562 |
| Total Interest Income | 11,187 | 10,476 | 32,986 | 31,287 |
| INTEREST EXPENSE | | | | |
| Deposits | 1,618 | 1,391 | 4,558 | 3,975 |
| Short-term borrowings | 44 | 2 | 130 | 49 |
| Advances from Federal Home Loan Bank | 178 | 166 | 511 | 484 |
| Guaranteed junior subordinated deferrable interest debentures | 280 | 280 | 840 | 840 |
| Subordinated debt | 130 | 131 | 390 | 389 |
| Total Interest Expense | 2,250 | 1,970 | 6,429 | 5,737 |
| NET INTEREST INCOME | 8,937 | 8,506 | 26,557 | 25,550 |
| Provision for loan losses | 200 | 300 | 750 | 3,650 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 8,737 | 8,206 | 25,807 | 21,900 |
| NON-INTEREST INCOME | | | | |
| Trust and investment advisory fees | 2,045 | 2,035 | 6,292 | 6,234 |
| Service charges on deposit accounts | 409 | 433 | 1,168 | 1,252 |
| Net gains on sale of loans | 217 | 260 | 517 | 552 |
| Mortgage related fees | 69 | 132 | 227 | 293 |
| Net realized gains on investment securities | 56 | 60 | 115 | 177 |
| Bank owned life insurance | 143 | 169 | 594 | 505 |
| Other income | 690 | 572 | 2,033 | 1,827 |
| Total Non-Interest Income | 3,629 | 3,661 | 10,946 | 10,840 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 6,005 | 5,901 | 17,994 | 17,935 |
| Net occupancy expense | 634 | 656 | 1,947 | 2,083 |
| Equipment expense | 343 | 419 | 1,196 | 1,264 |
| Professional fees | 1,213 | 1,330 | 3,828 | 3,987 |

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| | | | | |
|--|---------|---------|---------|---------|
| Supplies, postage and freight | 161 | 181 | 516 | 530 |
| Miscellaneous taxes and insurance | 319 | 287 | 924 | 866 |
| Federal deposit insurance expense | 156 | 189 | 468 | 556 |
| Other expense | 1,283 | 1,393 | 3,643 | 3,885 |
| Total Non-Interest Expense | 10,114 | 10,356 | 30,516 | 31,106 |
| PRETAX INCOME | 2,252 | 1,511 | 6,237 | 1,634 |
| Provision for income tax expense | 701 | 446 | 1,949 | 474 |
| NET INCOME | 1,551 | 1,065 | 4,288 | 1,160 |
| Preferred stock dividends | | | | 15 |
| NET INCOME AVAILABLE TO COMMON SHAREHOLDERS | \$1,551 | \$1,065 | \$4,288 | \$1,145 |
| PER COMMON SHARE DATA: | | | | |
| Basic: | | | | |
| Net income | \$0.08 | \$0.06 | \$0.23 | \$0.06 |
| Average number of shares outstanding | 18,380 | 18,899 | 18,590 | 18,893 |
| Diluted: | | | | |
| Net income | \$0.08 | \$0.06 | \$0.23 | \$0.06 |
| Average number of shares outstanding | 18,481 | 18,957 | 18,689 | 18,947 |
| Cash dividends declared | \$0.015 | \$0.015 | \$0.045 | \$0.035 |

See accompanying notes to unaudited consolidated financial statements.

TABLE OF CONTENTS**AmeriServ Financial, Inc.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME
(In thousands)
(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|---------|------------------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| COMPREHENSIVE INCOME | | | | |
| Net income | \$1,551 | \$1,065 | \$4,288 | \$1,160 |
| Other comprehensive income, before tax: | | | | |
| Pension obligation change for defined benefit plan | 396 | 263 | 870 | 1,030 |
| Income tax effect | (135) | (89) | (297) | (349) |
| Unrealized holding gains (losses) on available for sale securities arising during period | 176 | (191) | 538 | 1,417 |
| Income tax effect | (60) | 65 | (182) | (483) |
| Reclassification adjustment for gains on available for sale securities included in net income | (56) | (60) | (115) | (177) |
| Income tax effect | 19 | 20 | 39 | 60 |
| Other comprehensive income | 340 | 8 | 853 | 1,498 |
| Comprehensive income | \$1,891 | \$1,073 | \$5,141 | \$2,658 |

See accompanying notes to unaudited consolidated financial statements.

TABLE OF CONTENTS**AmeriServ Financial, Inc.**

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | Nine months ended September 30, | |
|---|------------------------------------|-----------|
| | 2017 | 2016 |
| OPERATING ACTIVITIES | | |
| Net income | \$4,288 | \$1,160 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Provision for loan losses | 750 | 3,650 |
| Depreciation expense | 1,224 | 1,306 |
| Net amortization of investment securities | 346 | 342 |
| Net realized gains on investment securities available for sale | (115) | (177) |
| Net gains on loans held for sale | (517) | (552) |
| Amortization of deferred loan fees | (117) | (174) |
| Origination of mortgage loans held for sale | (34,045) | (42,549) |
| Sales of mortgage loans held for sale | 35,876 | 37,327 |
| (Increase) decrease in accrued interest income receivable | (387) | 50 |
| Decrease in accrued interest payable | (18) | (18) |
| Earnings on bank owned life insurance | (427) | (505) |
| Deferred income taxes | 975 | (280) |
| Amortization of deferred issuance costs | 29 | 29 |
| Stock based compensation expense | 170 | 89 |
| Other, net | (2,492) | (2,000) |
| Net cash provided by (used in) operating activities | 5,540 | (2,302) |
| INVESTING ACTIVITIES | | |
| Purchases of investment securities available for sale | (27,581) | (24,896) |
| Purchases of investment securities held to maturity | (9,465) | (8,633) |
| Proceeds from sales of investment securities available for sale | 8,143 | 8,966 |
| Proceeds from maturities of investment securities available for sale | 17,341 | 18,750 |
| Proceeds from maturities of investment securities held to maturity | 1,054 | 2,166 |
| Purchases of regulatory stock | (12,894) | (8,833) |
| Proceeds from redemption of regulatory stock | 11,824 | 10,106 |
| Long-term loans originated | (122,029) | (145,189) |
| Principal collected on long-term loans | 112,626 | 120,875 |
| Loans purchased or participated | (6,121) | (4,948) |
| Loans sold or participated | 2,800 | 18,900 |
| Proceeds from sale of other real estate owned | 60 | 99 |
| Proceeds from life insurance policies | 614 | |

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| | | |
|--|-----------|-----------|
| Purchases of premises and equipment | (2,188) | (1,012) |
| Net cash used in investing activities | (25,816) | (13,649) |
| FINANCING ACTIVITIES | | |
| Net (decrease) increase in deposit balances | (865) | 59,442 |
| Net increase (decrease) in other short-term borrowings | 20,839 | (40,847) |
| Principal borrowings on advances from Federal Home Loan Bank | 9,500 | 7,042 |
| Principal repayments on advances from Federal Home Loan Bank | (11,000) | (6,000) |
| Preferred stock redemption | | (21,000) |
| Purchase of treasury stock | (2,757) | |
| Common stock dividends | (839) | (661) |
| Preferred stock dividends | | (15) |
| Net cash provided by (used in) financing activities | 14,878 | (2,039) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (5,398) | (17,990) |
| CASH AND CASH EQUIVALENTS AT JANUARY 1 | 34,073 | 48,510 |
| CASH AND CASH EQUIVALENTS AT SEPTEMBER 30 | \$28,675 | \$30,520 |

See accompanying notes to unaudited consolidated financial statements.

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AmeriServ Financial, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AmeriServ Financial, Inc. (the Company) and its wholly-owned subsidiaries, AmeriServ Financial Bank (the Bank), AmeriServ Trust and Financial Services Company (the Trust Company), and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a Pennsylvania state-chartered full service bank with 16 locations in Pennsylvania. The Trust Company offers a complete range of trust and financial services and administers assets valued at \$2.1 billion that are not reported on the Company's consolidated balance sheet at September 30, 2017. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

In addition, the Parent Company is an administrative group that provides support in such areas as audit, finance, investments, loan review, general services, and marketing. Significant intercompany accounts and transactions have been eliminated in preparing the consolidated financial statements.

2. Basis of Preparation

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. In the opinion of management, all adjustments consisting of normal recurring entries considered necessary for a fair presentation have been included. They are not, however, necessarily indicative of the results of consolidated operations for a full-year.

For further information, refer to the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

3. Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial

position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020.

The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the practical measures it may elect at adoption, but does not anticipate the amendment will have a significant impact to the financial statements. Based on the Company's preliminary analysis of its current portfolio, the Company expects to recognize a right of use asset and a lease liability for its operating leases commitments. The

Company also anticipates additional disclosures to be provided at adoption.

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AmeriServ Financial, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Recent Accounting Pronouncements (continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management’s current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the impact that the Update will have on our consolidated financial statements. The overall impact of the amendment will be affected by the portfolio composition and quality at the adoption date as well as economic conditions and forecasts at that time.

In January 2017, the FASB issued ASU No. 2017-03 *Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings*. ASU 2017-03 provides amendments that add paragraph 250-10-S99-6 which includes the text of SEC Staff Announcement: Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of a Registrant When Such Standards Are Adopted in a Future Period (in accordance with Staff Accounting Bulletin (SAB) Topic 11.M). This announcement applies to ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*; ASU No. 2016-02, *Leases (Topic 842)*; and ASU 2016-03, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and subsequent amendments. The Company has enhanced its disclosures regarding the impact that recently issued accounting standards adopted in a future period will have on its accounting and disclosures in this footnote.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715)*. The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. This Update is not expected to have a significant impact on the Company’s financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20)*. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****3. Recent Accounting Pronouncements (continued)**

should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. This Update is not expected to have a significant impact on the Company's financial statements.

4. Earnings Per Common Share

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are excluded for earnings per share purposes. The Company had 10,000 options to purchase common shares with an exercise price of \$4.00 per share, outstanding at September 30, 2017, but were excluded from the computation of diluted earnings per common share because to do so would be antidilutive.

For the 2016 period, options to purchase 147,968 common shares, at exercise prices ranging from \$3.18 to \$4.60, were outstanding but were not included in the computation of diluted earnings per common share because to do so would be antidilutive. Dividends on preferred shares are deducted from net income in the calculation of earnings per common share.

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|---------------------------------------|----------|------------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| | (In thousands, except per share data) | | | |
| Numerator: | | | | |
| Net income | \$ 1,551 | \$ 1,065 | \$ 4,288 | \$ 1,160 |
| Preferred stock dividends | | | | (15) |
| Net income available to common shareholders | \$ 1,551 | \$ 1,065 | \$ 4,288 | \$ 1,145 |
| Denominator: | | | | |
| Weighted average common shares outstanding (basic) | 18,380 | 18,899 | 18,590 | 18,893 |
| Effect of stock options | 101 | 58 | 99 | 54 |
| Weighted average common shares outstanding (diluted) | 18,481 | 18,957 | 18,689 | 18,947 |
| Earnings per common share: | | | | |
| Basic | \$ 0.08 | \$ 0.06 | \$ 0.23 | \$ 0.06 |
| Diluted | 0.08 | 0.06 | 0.23 | 0.06 |

5. Consolidated Statement of Cash Flows

On a consolidated basis, cash and cash equivalents include cash and due from depository institutions, interest-bearing deposits and short-term investments in money market funds. The Company made \$975,000 in income tax payments in the first nine months of 2017 and \$390,000 in the same 2016 period. The Company made total interest payments of \$6,447,000 in the first nine months of 2017 compared to \$5,755,000 in the same 2016 period. The Company had \$59,000 non-cash transfers to other real estate owned (OREO) in the first nine months of 2017 compared to \$151,000 non-cash transfers in the same 2016 period.

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The cost basis and fair values of investment securities are summarized as follows (in thousands):

Investment securities available for sale (AFS):

| | September 30, 2017 | | | |
|--------------------------------------|--------------------|------------------------|-------------------------|------------|
| | Cost Basis | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| US Agency | \$ 5,435 | \$ 1 | \$ (34) | \$ 5,402 |
| US Agency mortgage-backed securities | 80,756 | 866 | (382) | 81,240 |
| Taxable municipal | 7,203 | 30 | (166) | 7,067 |
| Corporate bonds | 35,886 | 327 | (476) | 35,737 |
| Total | \$ 129,280 | \$ 1,224 | \$ (1,058) | \$ 129,446 |

Investment securities held to maturity (HTM):

| | September 30, 2017 | | | |
|--------------------------------------|--------------------|------------------------|-------------------------|------------|
| | Cost Basis | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| US Agency mortgage-backed securities | \$ 10,081 | \$ 194 | \$ (23) | \$ 10,252 |
| Taxable municipal | 22,873 | 222 | (314) | 22,781 |
| Corporate bonds and other securities | 6,043 | 29 | (46) | 6,026 |
| Total | \$ 38,997 | \$ 445 | \$ (383) | \$ 39,059 |

Investment securities available for sale (AFS):

| | December 31, 2016 | | | |
|--------------------------------------|-------------------|------------------------|-------------------------|------------|
| | Cost Basis | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| US Agency | \$ 400 | \$ | \$ (2) | \$ 398 |
| US Agency mortgage-backed securities | 88,738 | 1,132 | (686) | 89,184 |
| Taxable municipal | 3,793 | 3 | (174) | 3,622 |

| | | | | |
|-----------------|------------|----------|-------------|------------|
| Corporate bonds | 34,403 | 194 | (724) | 33,873 |
| Total | \$ 127,334 | \$ 1,329 | \$ (1,586) | \$ 127,077 |

Investment securities held to maturity (HTM):

| | December 31, 2016 | | | |
|--------------------------------------|-------------------|------------------------|-------------------------|------------|
| | Cost Basis | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| US Agency mortgage-backed securities | \$ 11,177 | \$ 180 | \$ (79) | \$ 11,278 |
| Taxable municipal | 13,441 | 70 | (348) | 13,163 |
| Corporate bonds and other securities | 6,047 | 15 | (83) | 5,979 |
| Total | \$ 30,665 | \$ 265 | \$ (510) | \$ 30,420 |

Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investor's Service or Standard & Poor's rating of A. At September 30, 2017, 57.8% of the portfolio was rated AAA as compared to 63.5% at December 31, 2016. Approximately 12.8% of the portfolio was either rated below A or unrated at September 30, 2017 as compared to 10.1% at December 31, 2016.

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****6. Investment Securities (continued)**

The Company sold \$937,000 AFS securities in the third quarter of 2017 resulting in \$56,000 of gross investment security gains and sold \$8.1 million AFS securities in the first nine months of 2017 resulting in \$115,000 of gross investment security gains. The Company sold \$1.5 million AFS securities in the third quarter of 2016 resulting in \$60,000 of gross investment security gains and sold \$9.0 million AFS securities in the first nine months of 2016 resulting in \$183,000 of gross investment security gains and \$6,000 of gross investment security losses.

The book value of securities, both available for sale and held to maturity, pledged to secure public and trust deposits, and certain Federal Home Loan Bank borrowings was \$114,589,000 at September 30, 2017 and \$104,953,000 at December 31, 2016.

The following tables present information concerning investments with unrealized losses as of September 30, 2017 and December 31, 2016 (in thousands):

Total investment securities:

| | September 30, 2017 | | | | | |
|--------------------------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| US Agency | \$3,990 | \$ (33) | \$399 | \$ (1) | \$4,389 | \$ (34) |
| US Agency mortgage-backed securities | 38,127 | (321) | 3,239 | (84) | 41,366 | (405) |
| Taxable municipal | 11,724 | (377) | 2,172 | (103) | 13,896 | (480) |
| Corporate bonds and other securities | 12,414 | (205) | 10,265 | (317) | 22,679 | (522) |
| Total | \$66,255 | \$ (936) | \$16,075 | \$ (505) | \$82,330 | \$ (1,441) |

Total investment securities:

| | December 31, 2016 | | | | | |
|--------------------------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| US Agency | \$398 | \$ (2) | \$ | \$ | \$398 | \$ (2) |
| US Agency mortgage-backed securities | 49,918 | (703) | 1,576 | (62) | 51,494 | (765) |
| Taxable municipal | 13,301 | (522) | | | 13,301 | (522) |
| Corporate bonds and other securities | 20,380 | (570) | 6,762 | (237) | 27,142 | (807) |

Total \$83,997 \$(1,797) \$8,338 \$ (299) \$92,335 \$(2,096)

The unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. There are 104 positions that are considered temporarily impaired at September 30, 2017. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****6. Investment Securities (continued)**

Contractual maturities of securities at September 30, 2017 are shown below (in thousands). Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. The duration of the total investment securities portfolio at September 30, 2017 is 44.2 months and is higher than the duration at December 31, 2016 which was 41.2 months. The duration remains within our internal established guideline range of 24 to 60 months which we believe is appropriate to maintain proper levels of liquidity, interest rate risk, market valuation sensitivity and profitability.

Total investment securities:

| | September 30, 2017 | | | |
|------------------------------------|--------------------|------------|------------------|------------|
| | Available for sale | | Held to maturity | |
| | Cost Basis | Fair Value | Cost Basis | Fair Value |
| Within 1 year | \$ 1,400 | \$ 1,399 | \$ 2,000 | \$ 1,975 |
| After 1 year but within 5 years | 11,706 | 11,718 | 1,551 | 1,533 |
| After 5 years but within 10 years | 45,805 | 45,999 | 14,562 | 14,639 |
| After 10 years but within 15 years | 27,738 | 27,609 | 14,924 | 14,824 |
| Over 15 years | 42,631 | 42,721 | 5,960 | 6,088 |
| Total | \$ 129,280 | \$ 129,446 | \$ 38,997 | \$ 39,059 |

7. Loans

The loan portfolio of the Company consists of the following (in thousands):

| | September 30, 2017 | December 31, 2016 |
|---|--------------------------|-------------------------|
| Commercial | \$ 160,918 | \$ 171,529 |
| Commercial loans secured by real estate | 469,348 | 446,598 |
| Real estate mortgage | 246,881 | 245,765 |
| Consumer | 19,063 | 19,872 |
| Loans, net of unearned income | \$ 896,210 | \$ 883,764 |

Loan balances at September 30, 2017 and December 31, 2016 are net of unearned income of \$438,000 and \$476,000, respectively. Real estate-construction loans comprised 3.6% and 4.7% of total loans, net of unearned income at September 30, 2017 and December 31, 2016, respectively.

8. Allowance for Loan Losses

The following tables summarize the rollforward of the allowance for loan losses by portfolio segment for the three and nine month periods ending September 30, 2017 and 2016 (in thousands).

| | Three months ended September 30, 2017 | | | | Balance at September 30, 2017 |
|---|---------------------------------------|-------------|------------|-----------------------|--|
| | Balance at June 30, 2017 | Charge-Offs | Recoveries | Provision (Credit) | |
| Commercial | \$3,825 | \$ (228) | \$ 9 | \$ 561 | \$ 4,167 |
| Commercial loans secured by real estate | 4,487 | | 3 | (644) | 3,846 |
| Real estate-mortgage | 1,151 | (109) | 72 | 50 | 1,164 |
| Consumer | 138 | (42) | 50 | (7) | 139 |
| Allocation for general risk | 790 | | | 240 | 1,030 |
| Total | \$10,391 | \$ (379) | \$ 134 | \$ 200 | \$ 10,346 |

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TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****8. Allowance for Loan Losses (continued)**

| | Three months ended September 30, 2016 | | | | Balance at |
|---|---------------------------------------|-------------|------------|-----------|------------|
| | Balance | | | Provision | September |
| | at | Charge-Offs | Recoveries | (Credit) | 30, |
| | June 30, | | | | 2016 |
| | 2016 | | | | 2016 |
| Commercial | \$4,322 | \$ (295) | \$ 115 | \$ 92 | \$ 4,234 |
| Commercial loans secured by real estate | 3,274 | (13) | 2 | 85 | 3,348 |
| Real estate-mortgage | 1,075 | (104) | 24 | 77 | 1,072 |
| Consumer | 135 | (57) | 8 | 53 | 139 |
| Allocation for general risk | 940 | | | (7) | 933 |
| Total | \$9,746 | \$ (469) | \$ 149 | \$ 300 | \$ 9,726 |

| | Nine months ended September 30, 2017 | | | | Balance at |
|---|--------------------------------------|-------------|------------|-----------|------------|
| | Balance | | | Provision | September |
| | at | Charge-Offs | Recoveries | (Credit) | 30, |
| | December | | | | 30, |
| | 31, | | | | 2017 |
| | 2016 | | | | 2017 |
| Commercial | \$4,041 | \$ (228) | \$ 22 | \$ 332 | \$ 4,167 |
| Commercial loans secured by real estate | 3,584 | (14) | 8 | 268 | 3,846 |
| Real estate-mortgage | 1,169 | (263) | 165 | 93 | 1,164 |
| Consumer | 151 | (138) | 112 | 14 | 139 |
| Allocation for general risk | 987 | | | 43 | 1,030 |
| Total | \$9,932 | \$ (643) | \$ 307 | \$ 750 | \$ 10,346 |

| | Nine months ended September 30, 2016 | | | | Balance at |
|---|--------------------------------------|-------------|------------|-----------|------------|
| | Balance | | | Provision | September |
| | at | Charge-Offs | Recoveries | (Credit) | 30, |
| | December | | | | 30, |
| | 31, | | | | 2016 |
| | 2015 | | | | 2016 |
| Commercial | \$4,244 | \$ (3,648) | \$ 126 | \$ 3,512 | \$ 4,234 |
| Commercial loans secured by real estate | 3,449 | (13) | 38 | (126) | 3,348 |
| Real estate-mortgage | 1,173 | (150) | 86 | (37) | 1,072 |

| | | | | | |
|-----------------------------|---------|-------------|--------|----------|----------|
| Consumer | 151 | (302) | 18 | 272 | 139 |
| Allocation for general risk | 904 | | | 29 | 933 |
| Total | \$9,921 | \$ (4,113) | \$ 268 | \$ 3,650 | \$ 9,726 |

The provision expense, charge-offs and recoveries were at more typical levels in the first nine months of 2017. The allocation amount to commercial loans secured by real estate (CRE) in the third quarter of 2017 reflects an improvement in the level of delinquency and the level of classified assets since the end of the second quarter of 2017 as one large CRE credit was upgraded and another transferred into non-accrual status (see further discussion in the loan quality section of the MD&A). The substantially higher than typical provision and net loan charge-offs in the first three months 2016 for the commercial portfolio was necessary to resolve the Company's only meaningful direct loan exposure to the energy industry. These loans were related to a single borrower in the fracking industry who had filed for bankruptcy protection in the fourth quarter of 2015. With the bankruptcy changing from Chapter 11 (reorganization) to Chapter 7 (liquidation) late in the first quarter of 2016, the Company concluded that its previously established reserves on these non-accrual loans were not sufficient to cover the discounted collateral values that resulted from the liquidation process.

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****8. Allowance for Loan Losses (continued)**

The following tables summarize the loan portfolio and allowance for loan loss by the primary segments of the loan portfolio (in thousands).

| Loans: | At September 30, 2017 | | | | | Allocation for General Risk | Total |
|---------------------------------------|-----------------------|---|-----------------------------|-----------|----------|--------------------------------------|------------|
| | Commercial | Commercial Loans Secured by Real Estate | Real Estate- Mortgage | Consumer | | | |
| Individually evaluated for impairment | \$ 1,458 | \$ 2,465 | \$ | \$ | | | \$ 3,923 |
| Collectively evaluated for impairment | 159,460 | 466,883 | 246,881 | 19,063 | | | 892,287 |
| Total loans | \$ 160,918 | \$ 469,348 | \$ 246,881 | \$ 19,063 | | | \$ 896,210 |
| Allowance for loan losses: | | | | | | | |
| Specific reserve allocation | \$ 860 | \$ 28 | \$ | \$ | \$ | | \$ 888 |
| General reserve allocation | 3,307 | 3,818 | 1,164 | 139 | 1,030 | | 9,458 |
| Total allowance for loan losses | \$ 4,167 | \$ 3,846 | \$ 1,164 | \$ 139 | \$ 1,030 | | \$ 10,346 |

| Loans: | At December 31, 2016 | | | | | Allocation for General Risk | Total |
|---------------------------------------|----------------------|---|-----------------------------|-----------|--------|--------------------------------------|------------|
| | Commercial | Commercial Loans Secured by Real Estate | Real Estate- Mortgage | Consumer | | | |
| Individually evaluated for impairment | \$ 496 | \$ 178 | \$ | \$ | | | \$ 674 |
| Collectively evaluated for impairment | 171,033 | 446,420 | 245,765 | 19,872 | | | 883,090 |
| Total loans | \$ 171,529 | \$ 446,598 | \$ 245,765 | \$ 19,872 | | | \$ 883,764 |
| Allowance for loan losses: | | | | | | | |
| Specific reserve allocation | \$ 496 | \$ 31 | \$ | \$ | \$ | | \$ 527 |
| General reserve allocation | 3,545 | 3,553 | 1,169 | 151 | 987 | | 9,405 |
| Total allowance for loan losses | \$ 4,041 | \$ 3,584 | \$ 1,169 | \$ 151 | \$ 987 | | \$ 9,932 |

The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The loan segments used are consistent with the internal reports evaluated by the Company's management and Board of Directors to monitor risk and performance within various segments of its loan portfolio and therefore, no further disaggregation into classes is necessary. The overall risk profile for the commercial loan segment is effected by non-owner occupied commercial real estate (CRE) loans, which include loans secured by non-owner occupied nonfarm nonresidential properties, as a meaningful portion of the commercial portfolio is centered in these types of accounts. The residential mortgage loan segment is comprised of first lien amortizing residential mortgage loans and home equity loans secured by residential real estate. The consumer loan segment consists primarily of installment loans and overdraft lines of credit connected with customer deposit accounts.

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AmeriServ Financial, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

8. Allowance for Loan Losses (continued)

Management evaluates for possible impairment any individual loan in the commercial or commercial real estate segment with a loan balance in excess of \$100,000 that is in nonaccrual status or classified as a Troubled Debt Restructure (TDR). Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

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. The Company does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a TDR.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs for collateral dependent loans. The method is selected on a loan-by-loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The need for an updated appraisal on collateral dependent loans is determined on a case-by-case basis. The useful life of an appraisal or evaluation will vary depending upon the circumstances of the property and the economic conditions in the marketplace. A new appraisal is not required if there is an existing appraisal which, along with other information, is sufficient to determine a reasonable value for the property and to support an appropriate and adequate allowance for loan losses. At a minimum, annual documented reevaluation of the property is completed by the Bank's internal Loan Review Department to support the value of the property.

When reviewing an appraisal associated with an existing collateral real estate dependent transaction, the Bank's internal Assigned Risk Department must determine if there have been material changes to the underlying assumptions in the appraisal which affect the original estimate of value. Some of the factors that could cause material changes to reported values include:

- the passage of time;
- the volatility of the local market;
- the availability of financing;
- natural disasters;

the inventory of competing properties;
new improvements to, or lack of maintenance of, the subject property or competing properties upon physical inspection by the Bank;
changes in underlying economic and market assumptions, such as material changes in current and projected vacancy, absorption rates, capitalization rates, lease terms, rental rates, sales prices, concessions, construction overruns and delays, zoning changes, etc.; and/or
environmental contamination.

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TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****8. Allowance for Loan Losses (continued)**

The value of the property is adjusted to appropriately reflect the above listed factors and the value is discounted to reflect the value impact of a forced or distressed sale, any outstanding senior liens, any outstanding unpaid real estate taxes, transfer taxes and closing costs that would occur with sale of the real estate. If the Assigned Risk Department personnel determine that a reasonable value cannot be derived based on available information, a new appraisal is ordered. The determination of the need for a new appraisal, versus completion of a property valuation by the Bank's Assigned Risk Department personnel rests with the Assigned Risk Department and not the originating account officer.

The following tables present impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary (in thousands).

| | September 30, 2017 | | | Total Impaired Loans | |
|---|--|---|---------------------|----------------------|--------------------------|
| | Impaired Loans with Specific Allowance | Impaired Loans with no Specific Allowance | | Recorded Investment | Unpaid Principal Balance |
| | Recorded Investment | Related Allowance | Recorded Investment | Recorded Investment | Unpaid Principal Balance |
| Commercial | \$ 1,448 | \$ 860 | \$ 10 | \$ 1,458 | \$ 1,458 |
| Commercial loans secured by real estate | 151 | 28 | 2,314 | 2,465 | 2,499 |
| Total impaired loans | \$ 1,599 | \$ 888 | \$ 2,324 | \$ 3,923 | \$ 3,957 |

| | December 31, 2016 | | | Total Impaired Loans | |
|---|--|---|---------------------|----------------------|--------------------------|
| | Impaired Loans with Specific Allowance | Impaired Loans with no Specific Allowance | | Recorded Investment | Unpaid Principal Balance |
| | Recorded Investment | Related Allowance | Recorded Investment | Recorded Investment | Unpaid Principal Balance |
| Commercial | \$ 496 | \$ 496 | \$ | \$ 496 | \$ 517 |
| Commercial loans secured by real estate | 162 | 31 | 16 | 178 | 209 |
| Total impaired loans | \$ 658 | \$ 527 | \$ 16 | \$ 674 | \$ 726 |

The following table presents the average recorded investment in impaired loans and related interest income recognized for the periods indicated (in thousands).

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|--|----------|------------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Average loan balance: | | | | |
| Commercial | \$ 1,302 | \$ 821 | \$ 816 | \$ 992 |
| Commercial loans secured by real estate | 1,316 | 283 | 825 | 449 |
| Average investment in impaired loans | \$ 2,618 | \$ 1,104 | \$ 1,641 | \$ 1,441 |
| Interest income recognized: | | | | |
| Commercial | \$ 9 | \$ 1 | \$ 24 | \$ 9 |
| Commercial loans secured by real estate | | | 2 | 8 |
| Interest income recognized on a cash basis on impaired loans | \$ 9 | \$ 1 | \$ 26 | \$ 17 |

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AmeriServ Financial, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

8. Allowance for Loan Losses (continued)

Management uses a nine point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized. The first five Pass categories are aggregated, while the Pass-6, Special Mention, Substandard and Doubtful categories are disaggregated to separate pools. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due, or for which any portion of the loan represents a specific allocation of the allowance for loan losses are placed in Substandard or Doubtful.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process, which dictates that, at a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of \$250,000 within a 12-month period. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, delinquency, or death occurs to raise awareness of a possible credit event. The Company's commercial relationship managers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. Risk ratings are assigned by the account officer, but require independent review from the Company's internal Loan Review Department. The Loan Review Department is an experienced independent function which reports directly to the Board's Audit Committee. The scope of commercial portfolio coverage by the Loan Review Department is defined and presented to the Audit Committee for approval on an annual basis. The approved scope of coverage for 2017 requires review of a minimum range of 50% to 55% of the commercial loan portfolio.

In addition to loan monitoring by the account officer and Loan Review Department, the Company also requires presentation of all credits rated Pass-6 with aggregate balances greater than \$1,000,000, all credits rated Special Mention or Substandard with aggregate balances greater than \$250,000, and all credits rated Doubtful with aggregate balances greater than \$100,000 on an individual basis to the Company's Loan Loss Reserve Committee on a quarterly basis. Additionally, the Asset Quality Task Force, which is a group comprised of senior level personnel, meets monthly to monitor the status of problem loans.

The following table presents the classes of the commercial and commercial real estate loan portfolios summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system (in thousands).

| | | | |
|--------------------|-------------|----------|-------|
| September 30, 2017 | | | |
| Pass | Substandard | Doubtful | Total |

| | | | | | |
|---|------------|--------------------|----------|--------|------------|
| | | Special Mention | | | |
| Commercial | \$ 158,169 | \$ 76 | \$ 2,423 | \$ 250 | \$ 160,918 |
| Commercial loans secured by real estate | 448,766 | 16,524 | 4,044 | 14 | 469,348 |
| Total | \$ 606,935 | \$ 16,600 | \$ 6,467 | \$ 264 | \$ 630,266 |

| | | | | | |
|---|-------------------|--------------------|-------------|----------|------------|
| | December 31, 2016 | | | | |
| | Pass | Special Mention | Substandard | Doubtful | Total |
| Commercial | \$ 168,116 | \$ 1,087 | \$ 1,830 | \$ 496 | \$ 171,529 |
| Commercial loans secured by real estate | 436,318 | 7,497 | 2,767 | 16 | 446,598 |
| Total | \$ 604,434 | \$ 8,584 | \$ 4,597 | \$ 512 | \$ 618,127 |

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TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****8. Allowance for Loan Losses (continued)**

It is generally the policy of the Bank that the outstanding balance of any residential mortgage loan that exceeds 90-days past due as to principal and/or interest is transferred to non-accrual status and an evaluation is completed to determine the fair value of the collateral less selling costs, unless the balance is minor. A charge down is recorded for any deficiency balance determined from the collateral evaluation. The remaining non-accrual balance is reported as impaired with no specific allowance. It is generally the policy of the bank that the outstanding balance of any consumer loan that exceeds 90-days past due as to principal and/or interest is charged off. The following tables present the performing and non-performing outstanding balances of the residential and consumer portfolios (in thousands).

| | September 30, 2017 | |
|----------------------|--------------------|----------------|
| | Performing | Non-Performing |
| Real estate-mortgage | \$ 245,479 | \$ 1,402 |
| Consumer | 19,056 | 7 |
| Total | \$ 264,535 | \$ 1,409 |

| | December 31, 2016 | |
|----------------------|-------------------|----------------|
| | Performing | Non-Performing |
| Real estate-mortgage | \$ 244,836 | \$ 929 |
| Consumer | 19,872 | |
| Total | \$ 264,708 | \$ 929 |

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans (in thousands).

| | September 30, 2017 | | | | | | 90 |
|------------|--------------------|------------------|------------------|------------------|------------------|------------------|----------------------------------|
| | Current | 30 Days Past Due | 59 Days Past Due | 60 Days Past Due | 89 Days Past Due | 90 Days Past Due | Days Past Due and Still Accruing |
| Commercial | \$ 159,529 | \$ 1,228 | \$ | \$ 161 | \$ 1,389 | \$ 160,918 | \$ |
| | 461,506 | 5,358 | | 2,484 | 7,842 | 469,348 | |

Commercial loans secured by real estate

| | | | | | | |
|----------------------|-----------|---------|-------|---------|----------|-----------|
| Real estate-mortgage | 242,793 | 2,488 | 861 | 739 | 4,088 | 246,881 |
| Consumer | 18,978 | 73 | 12 | | 85 | 19,063 |
| Total | \$882,806 | \$9,147 | \$873 | \$3,384 | \$13,404 | \$896,210 |

December 31, 2016

| | Current | 30 Days Past Due | 59 Days Past Due | 60 Days Past Due | 89 Days Past Due | 90 Days Past Due | Total Past Due | Total Loans | 90 Days Past Due and Still Accruing |
|---|-----------|------------------|------------------|------------------|------------------|------------------|----------------|-------------|-------------------------------------|
| Commercial | \$171,292 | \$237 | \$ | \$ | \$ | \$ | \$237 | \$171,529 | \$ |
| Commercial loans secured by real estate | 446,477 | 121 | | | | | 121 | 446,598 | |
| Real estate-mortgage | 241,802 | 2,856 | 610 | 497 | 3,963 | 245,765 | | | |
| Consumer | 19,795 | 50 | 27 | | 77 | 19,872 | | | |
| Total | \$879,366 | \$3,264 | \$637 | \$497 | \$4,398 | \$883,764 | \$ | | |

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AmeriServ Financial, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

8. Allowance for Loan Losses (continued)

An allowance for loan losses (ALL) is maintained to support loan growth and cover charge-offs from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are complemented by consideration of other qualitative factors.

Management tracks the historical net charge-off activity at each risk rating grade level for the entire commercial portfolio and at the aggregate level for the consumer, residential mortgage and small business portfolios. A historical charge-off factor is calculated utilizing a rolling 12 consecutive historical quarters for the commercial portfolios. This historical charge-off factor for the consumer, residential mortgage and small business portfolios are based on a three year historical average of actual loss experience.

The Company uses a comprehensive methodology and procedural discipline to maintain an ALL to absorb inherent losses in the loan portfolio. The Company believes this is a critical accounting policy since it involves significant estimates and judgments. The allowance consists of three elements: 1) an allowance established on specifically identified problem loans, 2) formula driven general reserves established for loan categories based upon historical loss experience and other qualitative factors which include delinquency, non-performing and TDR loans, loan trends, economic trends, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies, and trends in policy, financial information, and documentation exceptions, and 3) a general risk reserve which provides support for variance from our assessment of the previously listed qualitative factors, provides protection against credit risks resulting from other inherent risk factors contained in the Company's loan portfolio, and recognizes the model and estimation risk associated with the specific and formula driven allowances. The qualitative factors used in the formula driven general reserves are evaluated quarterly (and revised if necessary) by the Company's management to establish allocations which accommodate each of the listed risk factors.

Pass rated credits are segregated from Criticized and Classified credits for the application of qualitative factors.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

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The following table presents information concerning non-performing assets including TDR (in thousands, except percentages):

| | September 30, 2017 | December 31, 2016 |
|--|--------------------------|-------------------------|
| <u>Non-accrual loans</u> | | |
| Commercial | \$ 461 | \$ 496 |
| Commercial loans secured by real estate | 2,785 | 178 |
| Real estate-mortgage | 1,402 | 929 |
| Consumer | 7 | |
| Total | 4,655 | 1,603 |
| <u>Other real estate owned</u> | | |
| Real estate-mortgage | 39 | 21 |
| Total | 39 | 21 |
| TDR s not in non-accrual | 678 | |
| Total non-performing assets including TDR | \$ 5,372 | \$ 1,624 |
| Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned | 0.60 % | 0.18 % |

The Company had no loans past due 90 days or more for the periods presented which were accruing interest.

The following table sets forth, for the periods indicated, (1) the gross interest income that would have been recorded if non-accrual loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination if held for part of the period, (2) the amount of interest income actually recorded on such loans, and (3) the net reduction in interest income attributable to such loans (in thousands).

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|-------|------------------------------------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| Interest income due in accordance with original terms | \$ 32 | \$ 20 | \$ 65 | \$ 99 |
| Interest income recorded | | | | |
| Net reduction in interest income | \$ 32 | \$ 20 | \$ 65 | \$ 99 |

Consistent with accounting and regulatory guidance, the Bank recognizes a TDR when the Bank, for economic or

legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the Bank's objective in offering a TDR is to increase the probability of repayment of the borrower's loan.

To be considered a TDR, both of the following criteria must be met:

the borrower must be experiencing financial difficulties; and the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that would not otherwise be considered.

Factors that indicate a borrower is experiencing financial difficulties include, but are not limited to:

the borrower is currently in default on their loan(s);
the borrower has filed for bankruptcy;

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****9. Non-performing Assets Including Troubled Debt Restructurings (TDR) (continued)**

the borrower has insufficient cash flows to service their loan(s); and the borrower is unable to obtain refinancing from other sources at a market rate similar to rates available to a non-troubled debtor.

Factors that indicate that a concession has been granted include, but are not limited to:

the borrower is granted an interest rate reduction to a level below market rates for debt with similar risk; or the borrower is granted a material maturity date extension, or extension of the amortization plan to provide payment relief. For purposes of this policy, a material maturity date extension will generally include any maturity date extension, or the aggregate of multiple consecutive maturity date extensions, that exceed 120 days. A restructuring that results in an insignificant delay in payment, i.e. 120 days or less, is not necessarily a TDR. Insignificant payment delays occur when the amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value, and will result in an insignificant shortfall in the originally scheduled contractual amount due, and/or the delay in timing of the restructured payment period is insignificant relative to the frequency of payments, the original maturity or the original amortization.

The determination of whether a restructured loan is a TDR requires consideration of all of the facts and circumstances surrounding the modification. No single factor is determinative of whether a restructuring is a TDR. An overall general decline in the economy or some deterioration in a borrower's financial condition does not automatically mean that the borrower is experiencing financial difficulty. Accordingly, determination of whether a modification is a TDR involves a large degree of judgment.

The following table details the loans modified as TDRs during the nine month period ended September 30, 2017 (dollars in thousands).

| Loans in non-accrual status | # of Loans | Current Balance | Concession Granted |
|-----------------------------|------------|-----------------|--|
| Commercial loan | 2 | \$ 678 | Extension of maturity date with interest only period |

The following table details the loans modified as TDRs during the nine month period ended September 30, 2016 (dollars in thousands).

| Loans in non-accrual status | # of Loans | Current Balance | Concession Granted |
|-----------------------------|------------|-----------------|---------------------------------|
| Commercial loan | 2 | \$ 507 | Extension of maturity date with |

interest only period

In all instances where loans have been modified in troubled debt restructurings the pre- and post-modified balances are the same. The specific ALL reserve for loans modified as TDR s was \$390,000 and \$507,000 as of September 30, 2017 and 2016, respectively. All TDR s are individually evaluated for impairment and a related allowance is recorded, as needed.

Once a loan is classified as a TDR, this classification will remain until documented improvement in the financial position of the borrower supports confidence that all principal and interest will be paid according to terms. Additionally, the customer must have re-established a track record of timely payments according to the restructured contract terms for a minimum of six consecutive months prior to consideration for removing the loan from non-accrual TDR status. However, a loan will continue to be on non-accrual status until, consistent with our policy, the borrower has made a minimum of an additional six consecutive monthly payments in accordance with the terms of the loan.

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TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****9. Non-performing Assets Including Troubled Debt Restructurings (TDR) (continued)**

The Company had no loans that were classified as TDRs or were subsequently modified during each 12-month period prior to the current reporting periods, which begin January 1, 2017 and 2016 (nine month periods) and July 1, 2017 and 2016 (three month periods), respectively, and that subsequently defaulted during these reporting periods.

The Company is unaware of any additional loans which are required to either be charged-off or added to the non-performing asset totals disclosed above.

Foreclosed assets acquired in settlement of loans carried at fair value less estimated costs to sell are included in the other assets on the Consolidated Balance Sheet. As of September 30, 2017 and December 31, 2016, a total of \$39,000 and \$21,000, respectively of residential real estate foreclosed assets were included in other assets. As of September 30, 2017, the Company had initiated formal foreclosure procedures on \$297,000 of consumer residential mortgages.

10. Federal Home Loan Bank Borrowings

Total Federal Home Loan Bank (FHLB) borrowings and advances consist of the following (in thousands, except percentages):

| Type | At September 30, 2017 | | |
|-------------------------|-----------------------|-----------|-----------------------|
| | Maturing | Amount | Weighted Average Rate |
| Open Repo Plus Advances | Overnight | \$ 33,593 | 0.94 % |
| | 2017 | 1,000 | 0.88 |
| | 2018 | 12,000 | 1.48 |
| | 2019 | 12,500 | 1.51 |
| | 2020 | 13,542 | 1.67 |
| | 2021 and over | 5,000 | 1.68 |
| Total advances | | 44,042 | 1.57 |
| Total FHLB borrowings | | \$ 77,635 | 1.30 % |
| Type | At December 31, 2016 | | |
| | Maturing | Amount | Weighted Average Rate |
| Open Repo Plus | Overnight | \$ 12,754 | 0.74 % |

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| | | | |
|-----------------------|---------------|-----------|--------|
| Advances | 2017 | 12,000 | 1.06 |
| | 2018 | 12,000 | 1.48 |
| | 2019 | 12,500 | 1.51 |
| | 2020 | 8,042 | 1.59 |
| | 2021 and over | 1,000 | 1.60 |
| Total advances | | 45,542 | 1.37 |
| Total FHLB borrowings | | \$ 58,296 | 1.23 % |

The rate on Open Repo Plus advances can change daily, while the rates on the advances are fixed until the maturity of the advance. All FHLB stock along with an interest in certain residential mortgage and CRE loans with an aggregate statutory value equal to the amount of the advances are pledged as collateral to the FHLB of Pittsburgh to support these borrowings.

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****11. Preferred Stock**

On August 11, 2011, pursuant to the Small Business Lending Fund (SBLF), the Company issued and sold to the US Treasury 21,000 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series E (Series E Preferred Stock) for the aggregate proceeds of \$21 million. The SBLF was a voluntary program sponsored by the US Treasury that encouraged small business lending by providing capital to qualified community banks at favorable rates. The Company used the proceeds from the Series E Preferred Stock issued to the US Treasury to repurchase all 21,000 shares of its outstanding preferred shares previously issued to the US Treasury under the Capital Purchase Program.

On January 27, 2016, the Company redeemed the Series E Preferred Stock, at a redemption price of 100% of the liquidation amount plus accrued but unpaid dividends, after receiving approval from its federal banking regulator and the US Treasury.

12. Accumulated Other Comprehensive Loss

The following table presents the changes in each component of accumulated other comprehensive loss, net of tax, for the three and nine months ended September 30, 2017 and 2016 (in thousands):

| | Three months ended September 30, 2017 | | | Three months ended September 30, 2016 | | |
|---|---|------------|----------------------|---|-----------|----------------------|
| | Net Unrealized Gains and (Losses) on Investment Securities AFS ⁽¹⁾ | | Total ⁽¹⁾ | Net Unrealized Gains and (Losses) on Investment Securities AFS ⁽¹⁾ | | Total ⁽¹⁾ |
| | Defined Benefit Pension Items ⁽¹⁾ | | | Defined Benefit Pension Items ⁽¹⁾ | | |
| Beginning balance | \$30 | \$(11,094) | \$(11,064) | \$1,791 | \$(7,856) | \$(6,065) |
| Other comprehensive income (loss) before reclassifications | 116 | 261 | 377 | (126) | 174 | 48 |
| Amounts reclassified from accumulated other comprehensive loss | (37) | | (37) | (40) | | (40) |
| Net current period other comprehensive income (loss) | 79 | 261 | 340 | (166) | 174 | 8 |
| Ending balance | \$109 | \$(10,833) | \$(10,724) | \$1,625 | \$(7,682) | \$(6,057) |

(1) Amounts in parentheses indicate debits on the Consolidated Balance Sheets.

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TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****12. Accumulated Other Comprehensive Loss (continued)**

| | Nine months ended September 30, 2017 | | | Nine months ended September 30, 2016 | | |
|--|---|-------------|----------------------|---|------------|----------------------|
| | Net Unrealized Gains and (Losses) on Investment Securities AFS ⁽¹⁾ | | Total ⁽¹⁾ | Net Unrealized Gains and (Losses) on Investment Securities AFS ⁽¹⁾ | | Total ⁽¹⁾ |
| | Defined Benefit Pension Items ⁽¹⁾ | | | Defined Benefit Pension Items ⁽¹⁾ | | |
| Beginning balance | \$ (171) | \$ (11,406) | \$ (11,577) | \$ 808 | \$ (8,363) | \$ (7,555) |
| Other comprehensive income before reclassifications | 356 | 573 | 929 | 934 | 681 | 1,615 |
| Amounts reclassified from accumulated other comprehensive loss | (76) | | (76) | (117) | | (117) |
| Net current period other comprehensive income | 280 | 573 | 853 | 817 | 681 | 1,498 |
| Ending balance | \$ 109 | \$ (10,833) | \$ (10,724) | \$ 1,625 | \$ (7,682) | \$ (6,057) |

(1) Amounts in parentheses indicate debits on the Consolidated Balance Sheets.

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the three and nine months ended September 30, 2017 and 2016 (in thousands):

| Details about accumulated other comprehensive loss components | Amount reclassified from accumulated other comprehensive loss ⁽¹⁾ | Affected line item in the consolidated statement of operations |
|---|--|--|
| | For the three months ended September 30, | For the three months ended September 30, |
| | | |

| | 2017 | 2016 | |
|--|---------|----------|---|
| Realized gains on sale of securities | | | |
| | \$ (56) | \$ (60) | Net realized gains on investment securities |
| | 19 | 20 | Provision for income tax expense |
| | \$ (37) | \$ (40) | Net of tax |
| Total reclassifications for the period | \$ (37) | \$ (40) | Net income |

(1)

Amounts in parentheses indicate credits.

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****12. Accumulated Other Comprehensive Loss (continued)**

| Details about accumulated other comprehensive loss components | Amount reclassified from accumulated other comprehensive loss ⁽¹⁾ | | Affected line item in the consolidated statement of operations |
|---|--|--|--|
| | For the nine months ended September 30, 2017 | For the nine months ended September 30, 2016 | |
| Realized gains on sale of securities | \$ (115) | \$ (177) | Net realized gains on investment securities |
| | 39 | 60 | Provision for income tax expense |
| | \$ (76) | \$ (117) | Net of tax |
| Total reclassifications for the period | \$ (76) | \$ (117) | Net income |

(1)

Amounts in parentheses indicate credits.

13. Regulatory Capital

The Company is subject to various capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. 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 the Company's consolidated financial statements.

For a more detailed discussion see the Capital Resources section of the MD&A.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, Tier 1 capital to average assets, and common equity Tier I capital (as defined in the regulations) to risk-weighted assets

(RWA) (as defined). Additionally under Basel III rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. As of September 30, 2017, the Bank was categorized as Well Capitalized under the regulatory framework for prompt corrective action promulgated by the Federal Reserve. The Company believes that no conditions or events have occurred that would change this conclusion as of such date. To be categorized as Well Capitalized, the Bank must maintain minimum Total Capital, Common Equity Tier 1 Capital, Tier 1 Capital, and Tier 1 leverage ratios as set forth in the table. Additionally, while not a regulatory capital ratio, the Company's tangible common equity ratio was 7.35% at September 30, 2017 (in thousands, except ratios).

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****13. Regulatory Capital (continued)**

AT SEPTEMBER 30, 2017

| | COMPANY | | BANK | | TO BE MINIMUMWELL REQUIRED FOR UNDER CAPITAL PROMPT ADEQUAC PURPOSESACTION REGULATIONS* | |
|--|--------------------------|---------|--------------------------|---------|--|---------|
| | AMOUNT (IN THOUSANDS) | RATIO | AMOUNT (IN THOUSANDS) | RATIO | RATIO | RATIO |
| Total Capital (To Risk Weighted Assets) | \$126,357 | 13.08 % | \$109,915 | 11.44 % | 8.00 % | 10.00 % |
| Tier 1 Common Equity (To Risk Weighted Assets) | 95,839 | 9.92 | 98,695 | 10.28 | 4.50 | 6.50 |
| Tier 1 Capital (To Risk Weighted Assets) | 107,678 | 11.15 | 98,695 | 10.28 | 6.00 | 8.00 |
| Tier 1 Capital (To Average Assets) | 107,678 | 9.32 | 98,695 | 8.68 | 4.00 | 5.00 |

AT DECEMBER 31, 2016

| | COMPANY | | BANK | | TO BE MINIMUMWELL REQUIRED FOR UNDER CAPITAL PROMPT ADEQUAC PURPOSESACTION REGULATIONS* | |
|--|--------------------------|---------|--------------------------|---------|--|---------|
| | AMOUNT (IN THOUSANDS) | RATIO | AMOUNT (IN THOUSANDS) | RATIO | RATIO | RATIO |
| Total Capital (To Risk Weighted Assets) | \$125,131 | 13.15 % | \$107,618 | 11.35 % | 8.00 % | 10.00 % |
| Tier 1 Common Equity (To Risk Weighted Assets) | 95,028 | 9.99 | 96,796 | 10.21 | 4.50 | 6.50 |
| Tier 1 Capital (To Average Assets) | 106,868 | 11.23 | 96,796 | 10.21 | 6.00 | 8.00 |

Tier 1 Capital (To Risk Weighted Assets)

Tier 1 Capital (To Average Assets) 106,868 9.35 96,796 8.61 4.00 5.00

* Applies to the Bank only.

14. DERIVATIVE HEDGING INSTRUMENTS

The Company can use various interest rate contracts, such as interest rate swaps, caps, floors and swaptions to help manage interest rate and market valuation risk exposure, which is incurred in normal recurrent banking activities. The Company can use derivative instruments, primarily interest rate swaps, to manage interest rate risk and match the rates on certain assets by hedging the fair value of certain fixed rate debt, which converts the debt to variable rates and by hedging the cash flow variability associated with certain variable rate debt by converting the debt to fixed rates.

To accommodate the needs of our customers and support the Company's asset/liability positioning, we entered into interest rate swap agreements with customers and a large financial institution that specializes in these types of transactions in the first nine months of 2017. These arrangements involve the exchange of interest payments based on the notional amounts. The Company entered into floating rate loans and fixed rate swaps with our customers.

Simultaneously, the Company entered into an offsetting fixed rate swaps with PNC.

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****14. DERIVATIVE HEDGING INSTRUMENTS (continued)**

In connection with each swap transaction, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on the same notional amount at a fixed interest rate. At the same time, the Company agrees to pay PNC the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. These transactions allow the Company's customers to effectively convert a variable rate loan to a fixed rate. Because the Company acts as an intermediary for its customers, changes in the fair value of the underlying derivative contracts offset each other and do not significantly impact the Company's results of operations. The Company received \$139,000 in fees on the transactions.

The following table summarizes the interest rate swap transactions that impacted the Company's first nine months 2017 performance.

| | HEDGE TYPE | AGGREGATE NOTIONAL AMOUNT | WEAIGHTED AVERAGE RATE RECEIVED/ (PAID) | REPRICING FREQUENCY | INCREASE (DECREASE) IN INTEREST EXPENSE |
|------------------|------------|---------------------------|---|---------------------|---|
| SWAP ASSETS | FAIR VALUE | \$17,057,388 | 3.42 % | MONTHLY | \$ (72,920) |
| SWAP LIABILITIES | FAIR VALUE | (17,057,388) | (3.42) | MONTHLY | 72,920 |

NET EXPOSURE

The Company monitors and controls all derivative products with a comprehensive Board of Director approved hedging policy. This policy permits a total maximum notional amount outstanding of \$500 million for interest rate swaps, interest rate caps/floors, and swaptions. All hedge transactions must be approved in advance by the Investment Asset/Liability Committee (ALCO) of the Board of Directors. The Company had no caps or floors outstanding at September 30, 2017.

15. Segment Results

The financial performance of the Company is also monitored by an internal funds transfer pricing profitability measurement system which produces line of business results and key performance measures. The Company's major business units include retail banking, commercial banking, trust, and investment/parent. The reported results reflect the underlying economics of the business segments. Expenses for centrally provided services are allocated based upon the cost and estimated usage of those services. The businesses are match-funded and interest rate risk is centrally managed and accounted for within the investment/parent business segment. The key performance measure the

Company focuses on for each business segment is net income contribution.

Retail banking includes the deposit-gathering branch franchise and lending to both individuals and small businesses.

Lending activities include residential mortgage loans, direct consumer loans, and local business commercial loans.

Commercial banking to businesses includes commercial loans, business services, and CRE loans. The trust segment contains our wealth management businesses which include the Trust Company and West Chester Capital Advisors (WCCA), our registered investment advisory firm and Financial Services. Wealth management includes personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment.

Financial Services include the sale of mutual funds, annuities, and insurance products. The wealth management businesses also includes the union collective investment funds, primarily the ERECT fund which are designed to use union pension dollars in construction projects that utilize union labor. The investment/parent includes the net results of investment securities and borrowing activities, general corporate expenses not allocated to the business segments, interest expense on corporate debt, and centralized interest rate risk management. Inter-segment revenues were not material.

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****15. Segment Results (continued)**

The contribution of the major business segments to the Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016 were as follows (in thousands):

| | Three months ended September 30, 2017 | | Nine months ended September 30, 2017 | |
|--------------------|--|----------------------|---|----------------------|
| | Total revenue | Net income (loss) | Total revenue | Net income (loss) |
| Retail banking | \$ 6,443 | \$ 794 | \$ 19,138 | \$ 2,159 |
| Commercial banking | 4,722 | 1,412 | 14,269 | 4,295 |
| Trust | 2,223 | 335 | 6,804 | 991 |
| Investment/Parent | (822) | (990) | (2,708) | (3,157) |
| Total | \$ 12,556 | \$ 1,551 | \$ 37,503 | \$ 4,288 |

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2016 | |
|--------------------|--|----------------------|---|----------------------|
| | Total revenue | Net income (loss) | Total revenue | Net income (loss) |
| Retail banking | \$ 6,653 | \$ 857 | \$ 19,543 | \$ 2,335 |
| Commercial banking | 4,757 | 1,352 | 14,123 | 1,884 |
| Trust | 2,125 | 195 | 6,504 | 740 |
| Investment/Parent | (1,368) | (1,339) | (3,780) | (3,799) |
| Total | \$ 12,167 | \$ 1,065 | \$ 36,390 | \$ 1,160 |

16. Commitments and Contingent Liabilities

The Company had various outstanding commitments to extend credit approximating \$169.6 million and \$160.5 million along with standby letters of credit of \$10.3 million and \$8.5 million as of September 30, 2017 and December 31, 2016, respectively. The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Bank uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending.

Additionally, the Company is also subject to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of the Company, neither the resolution of these claims nor the funding of these credit commitments will have a material adverse effect on the Company's consolidated financial position, results

of operation or cash flows.

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****17. Pension Benefits**

The Company has a noncontributory defined benefit pension plan covering certain employees who work at least 1,000 hours per year. The participants shall have a vested interest in their accrued benefit after five full years of service. The benefits of the plan are based upon the employee's years of service and average annual earnings for the highest five consecutive calendar years during the final ten year period of employment. Plan assets are primarily debt securities (including US Treasury and Agency securities, corporate notes and bonds), listed common stocks (including shares of AmeriServ Financial, Inc. common stock which is limited to 10% of the plan's assets), mutual funds, and short-term cash equivalent instruments. The net periodic pension cost for the three and nine months ended September 30, 2017 and 2016 were as follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|--------|------------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Components of net periodic benefit cost | | | | |
| Service cost | \$ 390 | \$ 368 | \$ 1,170 | \$ 1,104 |
| Interest cost | 326 | 344 | 978 | 1,032 |
| Expected return on plan assets | (631) | (563) | (1,893) | (1,689) |
| Recognized net actuarial loss | 367 | 314 | 1,101 | 942 |
| Net periodic pension cost | \$ 452 | \$ 463 | \$ 1,356 | \$ 1,389 |

The Company implemented a soft freeze of its defined benefit pension plan to provide that non-union employees hired on or after January 1, 2013 and union employees hired on or after January 1, 2014 are not eligible to participate in the pension plan. Instead, such employees are eligible to participate in a qualified 401(k) plan. This change was made to help reduce pension costs in future periods.

18. Disclosures about Fair Value Measurements

The following disclosures establish a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined within this hierarchy are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Assets and Liability Measured on a Recurring Basis

Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the US Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****18. Disclosures about Fair Value Measurements (continued)**

The following tables present the assets reported on the Consolidated Balance Sheets at their fair value as of September 30, 2017 and December 31, 2016, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets and liability measured at fair value on a recurring basis are summarized below (in thousands):

| | Fair Value Measurements at September 30, 2017 | | | |
|--------------------------------------|---|-----------|-----------|-----------|
| | Using Total | (Level 1) | (Level 2) | (Level 3) |
| US Agency securities | \$ 5,402 | \$ | \$ 5,402 | \$ |
| US Agency mortgage-backed securities | 81,240 | | 81,240 | |
| Taxable municipal | 7,067 | | 7,067 | |
| Corporate bonds | 35,737 | | 35,737 | |
| Fair value swap asset | 84 | | | 84 |
| Fair value swap liability | (84) | | | (84) |

| | Fair Value Measurements at December 31, 2016 | | | |
|--------------------------------------|--|-----------|-----------|-----------|
| | Using Total | (Level 1) | (Level 2) | (Level 3) |
| US Agency securities | \$ 398 | \$ | \$ 398 | \$ |
| US Agency mortgage-backed securities | 89,184 | | 89,184 | |
| Taxable municipal | 3,622 | | 3,622 | |
| Corporate bonds | 33,873 | | 33,873 | |

Assets Measured on a Non-recurring Basis

Loans considered impaired are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. As detailed in the allowance for loan loss footnote, impaired loans are reported at fair value of the underlying collateral if the repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on observable market data which at times are discounted. At September 30, 2017, impaired loans with a carrying value of \$3.9 million were reduced by a specific valuation allowance totaling \$888,000 resulting in a net fair value of \$3.0 million. At December 31, 2016, impaired loans with a carrying value of \$674,000 were reduced by a specific valuation allowance totaling \$527,000 resulting in a net fair value of \$147,000.

Other real estate owned is measured at fair value based on appraisals, less estimated cost to sell. Valuations are periodically performed by management. Income and expenses from operations and changes in valuation allowance are included in the net expenses from OREO.

Assets measured at fair value on a non-recurring basis are summarized below (in thousands, except range data):

| | Fair Value Measurements at September 30, 2017 Using | | | |
|-------------------------|--|-----------|-----------|-----------|
| | Total | (Level 1) | (Level 2) | (Level 3) |
| Impaired loans | \$ 3,035 | \$ | \$ | \$ 3,035 |
| Other real estate owned | 39 | | | 39 |

| | Fair Value Measurements at December 31, 2016 Using | | | |
|-------------------------|---|-----------|-----------|-----------|
| | Total | (Level 1) | (Level 2) | (Level 3) |
| Impaired loans | \$ 147 | \$ | \$ | \$ 147 |
| Other real estate owned | 21 | | | 21 |

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TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****18. Disclosures about Fair Value Measurements (continued)**

| September 30, 2017 | Quantitative Information About Level 3 Fair Value Measurements | | | |
|-------------------------|--|--|--|------------------------------------|
| | Fair Value Estimate | Valuation Techniques | Unobservable Input | Range (Wgtd Ave) |
| Impaired loans | \$ 3,035 | Appraisal of collateral ^{(1),(3)} | Appraisal adjustments ⁽²⁾ | 40% to 77%(42%) |
| Other real estate owned | 39 | Appraisal of collateral ^{(1),(3)} | Appraisal adjustments ⁽²⁾ Liquidation expenses | 43% to 45%(43%) 2% to 206%(64%) |
| December 31, 2016 | Quantitative Information About Level 3 Fair Value Measurements | | | |
| | Fair Value Estimate | Valuation Techniques | Unobservable Input | Range (Wgtd Ave) |
| Impaired loans | \$ 147 | Appraisal of collateral ^{(1),(3)} | Appraisal adjustments ⁽²⁾ | 40% to 99%(45%) |
| Other real estate owned | 21 | Appraisal of collateral ^{(1),(3)} | Appraisal adjustments ⁽²⁾ Liquidation expenses | 20% to 77%(42%) 3% to 199%(37%) |

(1) Fair Value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions.

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

DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

For the Company, as for most financial institutions, approximately 90% of its assets and liabilities are considered financial instruments. Many of the Company's financial instruments, however, lack an available trading market characterized by a willing buyer and willing seller engaging in an exchange transaction. Therefore, significant estimates and present value calculations were used by the Company for the purpose of this disclosure.

TABLE OF CONTENTS**AmeriServ Financial, Inc.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****18. Disclosures about Fair Value Measurements (continued)**

Fair values have been determined by the Company using independent third party valuations that use the best available data (Level 2) and an estimation methodology (Level 3) the Company believes is suitable for each category of financial instruments. Management believes that cash, cash equivalents, and loans and deposits with floating interest rates have estimated fair values which approximate the recorded book balances. The estimation methodologies used, the estimated fair values based on US GAAP measurements, and recorded book balances at September 30, 2017 and December 31, 2016, were as follows (in thousands):

| | September 30, 2017 | | | |
|---|--------------------|----------------------|-----------|-----------|
| | Carrying Value | Fair Value (Level 1) | (Level 2) | (Level 3) |
| FINANCIAL ASSETS: | | | | |
| Cash and cash equivalents | \$28,675 | \$28,675 | \$28,675 | \$ |
| Investment securities AFS | 129,446 | 129,446 | | 129,446 |
| Investment securities HTM | 38,997 | 39,059 | | 36,105 |
| Regulatory stock | 6,554 | 6,554 | 6,554 | |
| Loans held for sale | 1,780 | 1,801 | 1,801 | |
| Loans, net of allowance for loan loss and unearned income | 885,864 | 884,359 | | 884,359 |
| Accrued interest income receivable | 3,503 | 3,503 | 3,503 | |
| Bank owned life insurance | 37,716 | 37,716 | 37,716 | |
| Fair value swap asset | 84 | 84 | | 84 |
| FINANCIAL LIABILITIES: | | | | |
| Deposits with no stated maturities | \$707,566 | \$707,566 | \$707,566 | \$ |
| Deposits with stated maturities | 259,355 | 260,498 | | 260,498 |
| Short-term borrowings | 33,593 | 33,593 | 33,593 | |
| All other borrowings | 64,420 | 67,962 | | 67,962 |
| Accrued interest payable | 1,622 | 1,622 | 1,622 | |
| Fair value swap liability | 84 | 84 | | 84 |
| | | | | |
| | December 31, 2016 | | | |
| | Carrying Value | Fair Value (Level 1) | (Level 2) | (Level 3) |
| FINANCIAL ASSETS: | | | | |
| Cash and cash equivalents | \$34,073 | \$34,073 | \$34,073 | \$ |
| Investment securities AFS | 127,077 | 127,077 | | 127,077 |

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| | | | | | |
|---|-----------|-----------|-----------|--------|---------|
| Investment securities HTM | 30,665 | 30,420 | | 27,473 | 2,947 |
| Regulatory stock | 5,484 | 5,484 | 5,484 | | |
| Loans held for sale | 3,094 | 3,158 | 3,158 | | |
| Loans, net of allowance for loan loss and unearned income | 873,832 | 869,960 | | | 869,960 |
| Accrued interest income receivable | 3,116 | 3,116 | 3,116 | | |
| Bank owned life insurance | 37,903 | 37,903 | 37,903 | | |
| FINANCIAL LIABILITIES: | | | | | |
| Deposits with no stated maturities | \$708,062 | \$708,062 | \$708,062 | \$ | \$ |
| Deposits with stated maturities | 259,724 | 261,446 | | | 261,446 |
| Short-term borrowings | 12,754 | 12,754 | 12,754 | | |
| All other borrowings | 65,891 | 69,348 | | | 69,348 |
| Accrued interest payable | 1,640 | 1,640 | 1,640 | | |

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AmeriServ Financial, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

18. Disclosures about Fair Value Measurements (continued)

The fair value of cash and cash equivalents, regulatory stock, accrued interest income receivable, short-term borrowings, and accrued interest payable are equal to the current carrying value.

The fair value of investment securities is equal to the available quoted market price for similar securities. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the US Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. The Level 3 securities are valued by discounted cash flows using the US Treasury rate for the remaining term of the securities.

Loans held for sale are priced individually at market rates on the day that the loan is locked for commitment with an investor. All loans in the held for sale account conform to Fannie Mae underwriting guidelines, with the specific intent of the loan being purchased by an investor at the predetermined rate structure. Loans in the held for sale account have specific delivery dates that must be executed to protect the pricing commitment (typically a 30, 45, or 60 day lock period).

The net loan portfolio has been valued using a present value discounted cash flow. The discount rate used in these calculations is based upon the treasury yield curve adjusted for non-interest operating costs, credit loss, current market prices and assumed prepayment risk.

The fair value of bank owned life insurance is based upon the cash surrender value of the underlying policies and matches the book value.

Deposits with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities. Deposits with no stated maturities have an estimated fair value equal to both the amount payable on demand and the recorded book balance.

The fair value of all other borrowings is based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities.

The fair values of the fair value swaps used for interest rate risk management represents the amount the Company would have expected to receive or pay to terminate such agreements.

Commitments to extend credit and standby letters of credit are financial instruments generally not subject to sale, and fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, is not considered material for disclosure. The contractual amounts of unfunded commitments are presented in Note 16.

Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values. The Company's remaining assets and liabilities which are not considered financial instruments have not been valued differently than has been customary under historical cost accounting.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (M.D. & A.)

2017 THIRD QUARTER SUMMARY OVERVIEW It is common knowledge that in the Northeastern region that the cold winters hamper economic activity. Then a good bit of the spring is devoted to repairing and replacing. However, as the thermometer recovers, so does the economy. The third quarter at AmeriServ demonstrated the impact of enterprises and consumers becoming actively engaged in their businesses. On October 17, 2017, AmeriServ announced net income of \$1,551,000 or \$0.08 per share. Those results are 12% higher than the second quarter of 2017 and 46% higher than the third quarter of 2016. Numbers like these do not just happen because it is summer. This kind of progress is the result of careful planning and execution by AmeriServ's knowledgeable bankers.

The loan portfolio attained the second highest quarterly average level since the third quarter of 2016. Deposits on average in the third quarter of 2017 were at an all-time record and at \$981 million are almost within reach of one billion for the first time ever. However, these are static numbers measured at a point in time but revenues were not static. Revenues measure the payments by third party customers for products and services. In the third quarter of 2017, AmeriServ recorded a 5% increase in gross revenues when compared with the third quarter of 2016. At the very same time through the first nine months of 2017, AmeriServ non-interest expenses have declined by almost \$600,000. This combination of increasing revenues and declining expenses enabled AmeriServ to report its best quarter since the third quarter of 2015.

The Federal Reserve has begun to increase interest rates from the virtually zero level of the last eight years. While it has been an on again, off again proposition at the Fed, national interest rates have been on the increase since a year ago. Management took advantage of these higher rates to begin to reformat the securities portfolio. This process has produced a 31% increase in the securities portfolio revenue over the third quarter of 2016, while controlling the level of risk in the portfolio.

Banking is not a static industry, for it is a reflection of the dynamics at work in the national economy, the regional economy and the local economy. Each of these economies is a reflection of the millions of individual decisions by Americans pursuing their own separate initiatives. It then becomes the responsibility of the Board and this Management team to plot a course which accommodates these complexities. There is no formula which has ever been fool proof. Rather it is the daily balancing of risk against reward that decides the winners and losers.

Given these larger forces at work, AmeriServ is and should conduct itself as a financial franchise in transition. It has grown from a weak source of loans in its markets to an active lender. AmeriServ has now completed over four consecutive years when it has loaned over 90% of its deposits to smaller and mid-sized local and regional business and consumers. This is a full 10% more than similar sized community banks in the United States. We believe lending to small businesses is our role in keeping the economy recovering from its series of negative events.

Also during those same four years of active lending, AmeriServ's loan losses have been less than a third of the losses of similar sized community banks in the United States.

Concurrently, AmeriServ's stand-alone Trust and Wealth Management Company has been transitioning. It now has approximately \$2 billion of assets under management and administration. More than half of that \$2 billion is investments in retirement savings programs. AmeriServ provides investment guidance, safekeeping and administrative support so that our friends and neighbors can devote their energies to their professions and careers. It is a very positive

program and one which we are proud to watch grow.

During the first nine months of 2017, the AmeriServ Board of Directors conducted a complete review of its structure and activities. The Board confirmed its committee-oriented management structure. It defined its role as one of oversight and not of management. It is clear that the role of the Board is to represent not themselves but every AmeriServ shareholder. The full Board discussed this report of the Corporate Governance Committee and adopted it unanimously on July 15, 2017. This vote has set in motion a transition within the Board to be certain that the interest of the shareholders should be pre-eminent throughout the Company.

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The economy has been continuing its slow recovery so this has been a good time to analyze the course and to structure the Company to be both relevant and rewarding in the days ahead. A new strategic plan, a reconstituted Board of Directors, and a rededication to continue the improvements in profitability have resulted. The positive impact has been demonstrated by the third quarter results. The eight cents level of earnings per share during the quarter provides a solid base for the hope of continued growth in earnings.

THREE MONTHS ENDED SEPTEMBER 30, 2017 VS. THREE MONTHS ENDED SEPTEMBER 30, 2016

PERFORMANCE OVERVIEW The following table summarizes some of the Company's key performance indicators (in thousands, except per share and ratios).

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 |
|---|---------------------------------------|---------------------------------------|
| Net income | \$ 1,551 | \$ 1,065 |
| Net income available to common shareholders | 1,551 | 1,065 |
| Diluted earnings per share | 0.08 | 0.06 |
| Return on average assets (annualized) | 0.53 % | 0.37 % |
| Return on average equity (annualized) | 6.37 % | 4.27 % |

The Company reported third quarter 2017 net income available to common shareholders of \$1,551,000, or \$0.08 per diluted common share. This earnings performance represented an increase of \$486,000, or 45.6%, from the third quarter of 2016 where net income available to common shareholders totaled \$1,065,000, or \$0.06 per diluted common share. The improved earnings in the third quarter of 2017 resulted from a favorable combination of increased total revenue, reduced non-interest expense and a controlled loan loss provision. The balance sheet is well positioned for higher interest rates as demonstrated in the form of increased net interest income in the third quarter of 2017.

Additionally, the Company benefited from several profitability improvement initiatives.

NET INTEREST INCOME AND MARGIN The Company's net interest income represents the amount by which interest income on average earning assets exceeds interest paid on average interest bearing liabilities. Net interest income is a primary source of the Company's earnings, and it is effected by interest rate fluctuations as well as changes in the amount and mix of average earning assets and average interest bearing liabilities. The following table compares the Company's net interest income performance for the third quarter of 2017 to the third quarter of 2016 (in thousands, except percentages):

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | \$ Change | % Change |
|---------------------|---------------------------------------|---------------------------------------|-----------|----------|
| Interest income | \$ 11,187 | \$ 10,476 | \$ 711 | 6.8 % |
| Interest expense | 2,250 | 1,970 | 280 | 14.2 |
| Net interest income | \$ 8,937 | \$ 8,506 | \$ 431 | 5.1 |
| Net interest margin | 3.28 % | 3.15 % | 0.13 | N/M |

N/M not meaningful

The Company's net interest income in the third quarter of 2017 increased by \$431,000, or 5.1%, from the prior year's third quarter while the net interest margin was 3.28% for the quarter representing an improvement of 13 basis points. The 2017 increase in net interest income is a result of a higher level of total earning assets and favorable balance sheet positioning which has contributed to the improved net interest margin performance. The Company continues to grow earning assets while also limiting increases in its cost of funds through disciplined deposit pricing. Specifically, for the quarter, the earning asset growth occurred in the investment securities portfolio while the loan portfolio remained relatively stable. Total investment securities averaged \$175 million in the third quarter of 2017 which is \$26.2 million, or 17.6%, higher than the \$149 million average for the third quarter of 2016. The growth in the investment securities portfolio is the result of management electing to diversify the mix of the investment securities portfolio through purchases of high quality corporate and taxable municipal securities. This revised strategy for securities purchases was facilitated by the increase in national interest rates that resulted in improved opportunities to purchase

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additional securities and grow the portfolio. As a result, interest on investments increased between the third quarter of 2017 and the third quarter of 2016 by \$318,000 or 31.4%. Total loans averaged \$892 million in the third quarter of 2017 which was comparable with the 2016 third quarter average of \$893 million. The slight decrease in the loan portfolio when comparing the third quarter average in 2017 to last year's third quarter average was the result of accelerated prepayment activity along with new commercial loan production funding occurring late in the 2017 quarter. Loan interest income increased by \$393,000, or 4.2%, between the third quarter of 2017 and the third quarter of 2016. The higher loan interest income results from new loans originating at higher yields due to the higher interest rates and also reflects the upward repricing of certain loans tied to LIBOR or the prime rate as both of these indices have moved up with the Federal Reserve's decision to increase the target federal funds interest rate by 25 basis points in December of 2016, March of 2017, and again in June of 2017. Also contributing to the higher level of total loan interest income was increased income from loan charges. Overall, total interest income increased by \$711,000, or 6.8%, in the third quarter of 2017.

Total interest expense for the third quarter of 2017 increased by \$280,000, or 14.2%, when compared to 2016, due to higher levels of both deposit and borrowing interest expense. The Company experienced growth in deposits which we believe reflects the loyalty of our core deposit base that provides a strong foundation upon which this growth builds. Management's ability to acquire new core deposit funding from outside of our traditional market areas as well as our ongoing efforts to offer new loan customers deposit products were the primary reasons for this growth. Specifically, total deposits averaged \$981 million for the third quarter of 2017 which is \$4.1 million, or 0.4%, higher than the \$977 million average for the third quarter of 2016. Deposit interest expense for the third quarter of 2017 increased by \$227,000, or 16.3%, due to the higher balance of deposits along with certain indexed money market accounts repricing upward after the Federal Reserve interest rate increases. As a result of the solid deposit growth, the Company's loan to deposit ratio averaged 91.3% at September 30, 2017 which indicates that the Company has ample room to further grow its loan portfolio. The Company experienced a \$53,000 increase in the interest cost for borrowings in the third quarter of 2017 due to a higher level of total borrowed funds and the immediate impact that the increases in the Federal Funds Rate had on the cost of overnight borrowed funds. In the third quarter of 2017, total average FHLB borrowed funds of \$59.2 million increased by \$8.0 million, or 15.7% from the prior year quarter.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the three month periods ended September 30, 2017 and September 30, 2016 setting forth (i) average assets, liabilities, and stockholders' equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) the Company's interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) the Company's net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables, loan balances do include non-accrual loans, and interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as interest recorded on certain non-accrual loans as cash is received. Additionally, a tax rate of 34% is used to compute tax-equivalent yields.

TABLE OF CONTENTS**Three months ended September 30** (In thousands, except percentages)

| | 2017 | | | 2016 | | |
|---|--------------------|--------------------------------|----------------|--------------------|--------------------------------|----------------|
| | Average Balance | Interest Income/ Expense | Yield/ Rate | Average Balance | Interest Income/ Expense | Yield/ Rate |
| Interest earning assets: | | | | | | |
| Loans and loans held for sale, net of unearned income | \$892,198 | \$9,865 | 4.35% | \$893,143 | \$9,469 | 4.17% |
| Interest bearing deposits | 1,026 | 3 | 1.26 | 1,065 | 2 | 0.59 |
| Short-term investment in money market funds | 8,921 | 42 | 1.86 | 20,797 | 31 | 0.58 |
| Investment securities AFS | 136,084 | 973 | 2.86 | 121,567 | 779 | 2.56 |
| Investment securities HTM | 38,700 | 314 | 3.25 | 27,041 | 202 | 2.99 |
| Total investment securities | 174,784 | 1,287 | 2.95 | 148,608 | 981 | 2.64 |
| Total interest earning assets/interest income | 1,076,929 | 11,197 | 4.11 | 1,063,613 | 10,483 | 3.89 |
| Non-interest earning assets: | | | | | | |
| Cash and due from banks | 22,082 | | | 21,675 | | |
| Premises and equipment | 12,467 | | | 11,887 | | |
| Other assets | 67,240 | | | 68,660 | | |
| Allowance for loan losses | (10,537) | | | (9,794) | | |
| TOTAL ASSETS | \$1,168,181 | | | \$1,156,041 | | |
| Interest bearing liabilities: | | | | | | |
| Interest bearing deposits: | | | | | | |
| Interest bearing demand | \$131,493 | \$180 | 0.54% | \$111,040 | \$84 | 0.29% |
| Savings | 98,184 | 41 | 0.17 | 96,593 | 41 | 0.17 |
| Money markets | 277,948 | 380 | 0.54 | 285,358 | 308 | 0.43 |
| Time deposits | 292,054 | 1,017 | 1.38 | 302,610 | 958 | 1.26 |
| Total interest bearing deposits | 799,679 | 1,618 | 0.80 | 795,601 | 1,391 | 0.70 |
| Short-term borrowings | 13,179 | 44 | 1.29 | 1,309 | 2 | 0.53 |
| Advances from Federal Home Loan Bank | 45,997 | 178 | 1.53 | 49,852 | 166 | 1.32 |
| Guaranteed junior subordinated deferrable interest debentures | 13,085 | 280 | 8.57 | 13,085 | 280 | 8.57 |
| Subordinated debt | 7,650 | 130 | 6.80 | 7,650 | 131 | 6.88 |
| Total interest bearing liabilities/interest expense | 879,590 | 2,250 | 1.02 | 867,497 | 1,970 | 0.90 |
| Non-interest bearing liabilities: | | | | | | |
| Demand deposits | 181,356 | | | 181,365 | | |
| Other liabilities | 10,628 | | | 7,931 | | |
| Shareholders equity | 96,607 | | | 99,248 | | |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$1,168,181 | | | \$1,156,041 | | |
| Interest rate spread | | | 3.09 | | | 2.99 |
| Net interest income/Net interest margin | | 8,947 | 3.28% | | 8,513 | 3.15% |
| Tax-equivalent adjustment | | (10) | | | (7) | |
| Net Interest Income | | \$8,937 | | | \$8,506 | |

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PROVISION FOR LOAN LOSSES The Company recorded a \$200,000 provision for loan losses in the third quarter of 2017 compared to a \$300,000 provision for loan losses in the third quarter of 2016. The provision recorded in the third quarter of 2017 supported commercial loan growth, a higher level of criticized loans and a lower level of net charge-offs than what was experienced during the third quarter of 2016. Although net loan charge-offs were higher than the loan loss provision for the third quarter of 2017, the provision through nine months has more than doubled the level of net charge-offs experienced during this same time period. This lower level of net charge-offs in relation to the provision through nine-months as well as a reduction in classified assets and the level of total delinquency since the end of the second quarter of this year were the contributing factors for the lower provision during the third quarter of 2017. The net result was a higher loan loss allowance in 2017 compared to last year. Overall, the Company continued to maintain strong asset quality as its nonperforming assets totaled \$5.4 million, or 0.60%, of total loans, at September 30, 2017. Total non-performing assets did increase by \$3.0 million since the end of the second quarter due primarily to the transfer of one commercial credit exposure into non-accrual status. It is believed that the Company's loss exposure on this loan is limited because it is well secured and has a low loan to value ratio. In summary, the allowance for loan losses provided 194% coverage of non-performing loans, and 1.15% of total loans, at September 30, 2017, compared to 620% coverage of non-performing loans, and 1.12% of total loans, at December 31, 2016.

NON-INTEREST INCOME Non-interest income for the third quarter of 2017 totaled \$3.6 million and decreased \$32,000, or 0.9%, from the third quarter 2016 performance. Factors contributing to this lower level of non-interest income for the quarter included:

a \$118,000 increase in other income was primarily due to revenue from our financial services business unit increasing by \$87,000 as wealth management continues to be an important strategic focus of the Company;
a \$63,000 decrease in mortgage related fees was due to a reduced level of residential mortgage refinancing activity which caused a corresponding \$43,000 reduction in revenue from residential mortgage loan sales into the secondary market;

a \$26,000 decrease in bank owned life insurance income; and

a \$24,000 decrease in services charges on deposit accounts was due to a reduced level of overdraft fee income;

NON-INTEREST EXPENSE Non-interest expense for the third quarter of 2017 totaled \$10.1 million and decreased by \$242,000, or 2.3%, from the prior year's third quarter. Factors contributing to the lower non-interest expense in the quarter included:

a \$117,000 or 8.8% decrease in professional fees and a \$110,000 decrease in other expense as both of these expense categories were higher in 2016 due to costs associated with the resolution of a trust operations trading error;
a \$104,000, or 1.8%, increase in salaries and employee benefits due to higher health care costs and additional investment in personnel talent, particularly within our wealth management subsidiary. These higher costs more than offset a decrease in pension expense; and
a combined \$98,000 decrease in equipment & occupancy expenses was due to the Company's ongoing profitability improvement initiatives.

TABLE OF CONTENTS**NINE MONTHS ENDED SEPTEMBER 30, 2017 VS. NINE MONTHS ENDED SEPTEMBER 30, 2016**

PERFORMANCE OVERVIEW The following table summarizes some of the Company's key performance indicators (in thousands, except per share and ratios).

| | Nine months ended September 30, 2017 | | Nine months ended September 30, 2016 | |
|---|--------------------------------------|---|--------------------------------------|---|
| Net income | \$ 4,288 | | \$ 1,160 | |
| Net income available to common shareholders | 4,288 | | 1,145 | |
| Diluted earnings per share | 0.23 | | 0.06 | |
| Return on average assets (annualized) | 0.49 | % | 0.14 | % |
| Return on average equity (annualized) | 5.98 | % | 1.54 | % |

The Company reported net income available to common shareholders of \$4,288,000, or \$0.23 per diluted common share. This represents a significant improvement of \$3.1 million from the nine-month period of 2016 where net income available to common shareholders totaled \$1,145,000, or \$0.06 per diluted common share. The improved earnings in the first nine months of 2017 resulted from a favorable combination of total revenue growth, a reduction in non-interest expense and a controlled loan loss provision. The balance sheet is well positioned for higher interest rates as demonstrated in the form of increased net interest income in the first nine months of 2017. Additionally, the Company benefitted from several profitability improvement initiatives.

NET INTEREST INCOME AND MARGIN The following table compares the Company's net interest income performance for the first nine months of 2017 to the first nine months of 2016 (in thousands, except percentages):

| | Nine months ended September 30, 2017 | | Nine months ended September 30, 2016 | | \$ Change | % Change |
|---------------------|--------------------------------------|---|--------------------------------------|---|-----------|----------|
| Interest income | \$ 32,986 | | \$ 31,287 | | \$ 1,699 | 5.4 % |
| Interest expense | 6,429 | | 5,737 | | 692 | 12.1 |
| Net interest income | \$ 26,557 | | \$ 25,550 | | \$ 1,007 | 3.9 |
| Net interest margin | 3.27 | % | 3.23 | % | 0.04 | N/M |

N/M not meaningful

The Company's net interest income for the first nine months of 2017 increased by \$1.0 million, or 3.9%, when compared to the first nine months of 2016. The Company's net interest margin was 3.27% for the first nine months of 2017 representing an improvement of four basis points from the first nine months of 2016. The 2017 increase in net interest income is a result of a higher level of total earning assets and a favorable balance sheet positioning which has contributed to the improved net interest margin performance. The Company continues to grow earning assets while also limiting increases in its cost of funds through disciplined deposit pricing. Specifically, the earning asset growth occurred in, both, the total investment securities and the total loan portfolios. Total loans averaged \$894 million which is \$6.4 million, or 0.7%, higher than the 2016 nine month average. Investment securities have averaged \$172 million

for the nine-month time period which is \$26.8 million, or 18.5%, higher than the nine month 2016 average. The growth in the investment securities portfolio is the result of management electing to diversify the mix of the investment securities portfolio through purchases of high quality corporate and taxable municipal securities. This revised strategy for securities purchases was facilitated by the increase in national interest rates that resulted in improved opportunities to purchase additional securities and grow the portfolio. As a result, interest on investments increased in the first nine months of 2017 from the same time period in 2016 by \$846,000 or 28.7%. The growth in total loans reflects the successful results of the Company's business development efforts, with an emphasis on generating all types of commercial business loans particularly through its loan production offices. Loan interest income increased by \$853,000, or 3.0%, in the first nine months of 2017 when compared to last year. The higher loan interest income results from new loans originating at higher yields due to the higher interest rates and also reflects the upward repricing of certain loans tied to LIBOR or the prime rate as both of these indices have moved up with the Federal Reserve's decision to increase the target federal funds interest rate by 25 basis points in December of 2016, March of 2017, and again in June of

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2017. The Company has also benefitted from a higher level of income from loan charges. Overall, total interest income increased by \$1.7 million, or 5.4%, in the first nine months of 2017.

Total interest expense increased by \$692,000, or 12.1%, in the first nine months of 2017 when compared to 2016, due to higher levels of both deposit and borrowing interest expense. The Company experienced growth in deposits which we believe reflects the loyalty of our core deposit base that provides a strong foundation upon which this growth builds. Specifically, total deposits averaged \$977 million for the first nine months of 2017 which is \$29.9 million, or 3.2%, higher than the \$947 million average for the first nine months of 2016. Deposit interest expense through nine months in 2017 increased by \$583,000, or 14.7%, due to the higher balance of deposits along with certain indexed money market accounts repricing upward after the Federal Reserve interest rate increases. As a result of the solid deposit growth, the Company's loan to deposit ratio averaged 91.5% in the first nine months of 2017 which indicates that the Company has ample room to further grow its loan portfolio. The Company experienced a \$109,000 increase in the interest cost for borrowings in the first nine months of 2017 primarily due to the immediate impact that the increases in the Federal Funds Rate had on the cost of overnight borrowed funds. In the first nine months of 2017, total average FHLB borrowed funds of \$61.2 million remained relatively stable, increasing slightly by \$339,000, or 0.6%.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the nine month periods ended September 30, 2017 and September 30, 2016 setting forth (i) average assets, liabilities, and stockholders' equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) the Company's interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) the Company's net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables, loan balances do include non-accrual loans, and interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as interest recorded on certain non-accrual loans as cash is received. Additionally, a tax rate of 34% is used to compute tax-equivalent yields.

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| | 2017 | | | 2016 | | |
|---|--------------------|--------------------------------|----------------|--------------------|--------------------------------|----------------|
| | Average Balance | Interest Income/ Expense | Yield/ Rate | Average Balance | Interest Income/ Expense | Yield/ Rate |
| Interest earning assets: | | | | | | |
| Loans and loans held for sale, net of unearned income | \$894,088 | \$29,219 | 4.33% | \$887,681 | \$28,358 | 4.22% |
| Interest bearing deposits | 1,029 | 8 | 1.03 | 1,871 | 11 | 0.71 |
| Short-term investment in money market funds | 8,049 | 93 | 1.52 | 12,987 | 54 | 0.55 |
| Investment securities AFS | 135,131 | 2,819 | 2.78 | 120,710 | 2,324 | 2.57 |
| Investment securities HTM | 36,854 | 877 | 3.17 | 24,482 | 562 | 3.06 |
| Total investment securities | 171,985 | 3,696 | 2.87 | 145,192 | 2,886 | 2.65 |
| Total interest earning assets/interest income | 1,075,151 | 33,016 | 4.08 | 1,047,731 | 31,309 | 3.96 |
| Non-interest earning assets: | | | | | | |
| Cash and due from banks | 22,214 | | | 19,883 | | |
| Premises and equipment | 12,095 | | | 11,982 | | |
| Other assets | 67,552 | | | 68,351 | | |
| Allowance for loan losses | (10,290) | | | (9,777) | | |
| TOTAL ASSETS | \$1,166,722 | | | \$1,138,170 | | |
| Interest bearing liabilities: | | | | | | |
| Interest bearing deposits: | | | | | | |
| Interest bearing demand | \$129,923 | \$450 | 0.46% | \$106,983 | \$231 | 0.29% |
| Savings | 97,852 | 122 | 0.17 | 96,149 | 119 | 0.16 |
| Money markets | 276,958 | 1,047 | 0.51 | 275,226 | 876 | 0.42 |
| Time deposits | 290,598 | 2,939 | 1.35 | 286,966 | 2,749 | 1.28 |
| Total interest bearing deposits | 795,331 | 4,558 | 0.77 | 765,324 | 3,975 | 0.69 |
| Short-term borrowings | 15,390 | 130 | 1.13 | 11,480 | 49 | 0.56 |
| Advances from Federal Home Loan Bank | 45,785 | 511 | 1.49 | 49,356 | 484 | 1.31 |
| Guaranteed junior subordinated deferrable interest debentures | 13,085 | 840 | 8.57 | 13,085 | 840 | 8.57 |
| Subordinated debt | 7,650 | 390 | 6.80 | 7,650 | 389 | 6.78 |
| Total interest bearing liabilities/interest expense | 877,241 | 6,429 | 0.98 | 846,895 | 5,737 | 0.90 |
| Non-interest bearing liabilities: | | | | | | |
| Demand deposits | 181,924 | | | 182,003 | | |
| Other liabilities | 11,630 | | | 8,683 | | |
| Shareholders equity | 95,927 | | | 100,589 | | |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$1,166,722 | | | \$1,138,170 | | |
| Interest rate spread | | | 3.10 | | | 3.06 |
| Net interest income/Net interest margin | | 26,587 | 3.27% | | 25,572 | 3.23% |
| Tax-equivalent adjustment | | (30) | | | (22) | |
| Net Interest Income | | \$26,557 | | | \$25,550 | |

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PROVISION FOR LOAN LOSSES The Company recorded a \$750,000 provision for loan losses compared to a \$3,650,000 provision for loan losses in 2016 or a decrease of \$2.9 million between years. Both, the loan loss provision and net charge-offs were at more typical levels this year than the substantially higher levels that were necessary early last year to resolve a troubled loan exposure to the energy industry. The provision recorded in 2017 supported commercial loan growth, a higher level of criticized loans and more than covered the low level of net loan charge-offs incurred in the first nine months of 2017. For the nine-month timeframe, the Company experienced net loan charge-offs of \$336,000, or 0.05% of total loans in 2017 compared to net loan charge-offs of \$3.8 million, or 0.58%, of total loans in 2016. Overall, the Company continued to maintain strong asset quality as its nonperforming assets totaled \$5.4 million, or 0.60%, of total loans, at September 30, 2017.

NON-INTEREST INCOME Non-interest income for the first nine months of 2017 totaled \$10.9 million and increased \$106,000, or 1.0%, from the first nine months 2016 performance. Factors contributing to this higher level of non-interest income in 2017 included:

a \$206,000 increase in other income was primarily due to revenue increasing from our financial services business unit by \$240,000 as wealth management continues to be an important strategic focus of the Company. Slightly offsetting the higher financial services business unit revenue was reduced miscellaneous income after the Company benefitted last year from funds received from our debit card vendor from a branding agreement;

an \$89,000 increase in bank owned life insurance was due to the second quarter receipt of a death claim;

an \$84,000 decrease in services charges on deposit accounts due to a reduced level of overdraft fee revenue;

a \$66,000 decrease in mortgage related fees and a corresponding \$35,000 decrease in revenue from residential mortgage loan sales into the secondary market as a result of reduced residential mortgage refinance activity;

a \$62,000 decrease in gains realized on the sale of investment securities in the first nine months of 2017 as the Company sold certain lower coupon mortgage backed securities to reinvest in the portfolio. In addition to a slightly lower volume of total securities sold in 2017, the increases to national interest rates experienced since last year unfavorably impacted the market value of the existing securities portfolio and resulted in a lower level of gains recognized from security sales; and

a \$58,000 increase in trust and investment advisory fees was due to a higher level of fee income that resulted from the effective management of client accounts as asset market values improved.

NON-INTEREST EXPENSE Non-interest expense for the first nine months of 2017 totaled \$30.5 million and decreased by \$590,000, or 1.9%, from the prior year's first nine months. Factors contributing to the lower non-interest expense in 2017 included:

a \$242,000 decrease in other expense and a corresponding \$159,000 decrease in professional fees were primarily due to costs associated with the resolution of a trust operations trading error in 2016. Also favorably impacting other expense during 2017 were lower costs for check card and ATM processing, software related expense, and a credit recognized to the Company's unfunded commitment reserve and reduced costs for fraud loss. Slightly offsetting these favorable items within other expense was an increase in Pennsylvania shares tax expense;

a \$136,000 decrease in occupancy expenses and a \$68,000 decrease in equipment costs are reflective of the Company's ongoing efforts to become more efficient by reducing and controlling non-interest expenses. Specifically, a branch consolidation and the closure on an unprofitable loan production office were the primary reasons for these decreases;

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an \$88,000 decrease in FDIC insurance expense was due to a change in the calculation formula that benefitted smaller community banks; and

a \$59,000 increase in salaries and employee benefits was due to higher health care costs and incentive compensation which more than offset a lower level of total salaries expense and reduced pension costs. There were six fewer full time equivalent employees on average during the first nine months of 2017 due to the previously disclosed branch consolidation in the State College Market and closure of an unprofitable loan production office in Harrisonburg, Virginia.

INCOME TAX EXPENSE The Company recorded an income tax expense of \$1.9 million, or an effective tax rate of 31.2%, in the first nine months of 2017. This compares to the income tax expense of \$474,000, or an effective tax rate of 29.0% for the first nine months of 2016. The higher income tax expense and effective tax rate was due to the Company's increased earnings.

SEGMENT RESULTS Retail banking's net income contribution was \$794,000 in the third quarter of 2017 and \$2.2 million for the first nine months of 2017 which was down by \$63,000 and \$176,000 from the net income contribution for the same 2016 periods. These decreases to both time periods reflects a higher volume of fixed rate residential mortgage loans being sold in the secondary market resulting in a lower volume held on our balance sheet. Interest expense is also higher between years due to higher deposit totals as certain indexed money market accounts repricing upward with the increases to the fed funds rate. Favorably impacting the retail segments income in both time periods was a lower level of non-interest expense due to the Company's focus on reducing and controlling costs which resulted in lower employee and occupancy expenses due to the State College branch consolidation. Finally, FDIC insurance expense and miscellaneous expenses are also lower in 2017.

The commercial banking segment reported net income of \$1.4 million in the third quarter of 2017 and \$4.3 million for the first nine months of 2017 which was \$60,000 and \$2.4 million higher when compared to the same of 2016 results. The higher level of income for the first nine months of 2017 was due to the lower provision for loan losses. The higher loan loss provision in 2016 was necessary to resolve the troubled energy sector loan that had a significant negative impact to reported net income in 2016. Growth in commercial real estate loans over the past year also contributed to the higher level of net income for both the nine month and quarterly time periods. In addition to the growth experienced in the CRE portfolio, which contributed to the higher level of income quarter versus quarter, the commercial banking segments also benefitted from a lower level of non-interest expense due to the closure of the Harrisonburg, Virginia loan production office and additional operation efficiencies. Also, a decrease in classified assets and the level of delinquency since the second quarter of this year contributed to the lower provision expense.

The trust segment reported net income of \$335,000 in the third quarter of 2017 and \$991,000 for the first nine months of 2017 which was \$140,000 higher than the 2016 quarter and \$251,000 higher than the first nine months of 2016. The increases to total income occurred as expenses returned to a more normal level after additional costs were necessary in 2016 to address a trust operations trading error. Also, the higher level of net income results from continued effective management of existing customer accounts as asset market values have improved. Finally, income from the Financial Services business unit increased as wealth management continues to be an important strategic focus of the Company. Additionally, and slightly offsetting the favorable items mentioned above was additional investment in talent, which contributed to higher salaries and benefits expense.

The investment/parent segment reported a net loss of \$1.0 million in the third quarter of 2017 and a net loss of \$3.2 million for the first nine months of 2017, which resulted in a lower loss by \$349,000 and \$642,000 from the 2016 results for the same periods. The decreased loss between years is reflective of the higher level of investment securities on the Company's balance sheet resulting from the Company's strategic decision to purchase more high quality corporate and taxable municipal securities in 2017. Even with this improvement, this segment continues to feel the most earnings pressure from the continued low interest rate environment.

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BALANCE SHEET The Company's total consolidated assets were \$1.171 billion at September 30, 2017, which increased by \$17.1 million, or 1.5%, from the December 31, 2016 asset level. The increase was driven by the growth in loans and investment securities. Specifically, total loans grew by \$12.4 million, or 1.4%, during the period and was complemented by an additional \$10.7 million, or 6.8%, growth in investment securities.

Total deposits decreased by \$865,000, or 0.1% in the first nine months of 2017. Total FHLB borrowings have increased by \$19.3 million since year-end 2016. The FHLB term advances declined by \$1.5 million and now total \$44 million as the Company has utilized these advances to help manage interest rate risk and favorably position our balance sheet for a rising rate environment. The Company's total shareholders' equity increased by \$1.7 million over the first nine months of 2017 due to the retention of earnings more than offsetting our common dividend payment to shareholders and the impact of our common stock buyback program.

The Company continues to be considered well capitalized for regulatory purposes with a total capital ratio of 13.08%, and a common equity tier 1 capital ratio of 9.92% at September 30, 2017. (See the discussion of the Basel III capital requirements under the Capital Resources section.) The Company's book value per common share was \$5.31, its tangible book value per common share was \$4.66, and its tangible common equity to tangible assets ratio was 7.35% at September 30, 2017.

LOAN QUALITY The following table sets forth information concerning the Company's loan delinquency, non-performing assets, and classified assets (in thousands, except percentages):

| | September 30, 2017 | December 31, 2016 | September 30, 2016 |
|--|-----------------------|----------------------|-----------------------|
| Total accruing loan delinquency (past due 30 to 89 days) | \$9,052 | \$3,278 | \$3,194 |
| Total non-accrual loans | 4,654 | 1,603 | 1,753 |
| Total non-performing assets including TDR* | 5,372 | 1,624 | 1,907 |
| Accruing loan delinquency, as a percentage of total loans, net of unearned income | 1.01 % | 0.37 % | 0.36 % |
| Non-accrual loans, as a percentage of total loans, net of unearned income | 0.52 | 0.18 | 0.20 |
| Non-performing assets, as a percentage of total loans, net of unearned income, and other real estate owned | 0.60 | 0.18 | 0.21 |
| Non-performing assets as a percentage of total assets | 0.46 | 0.14 | 0.17 |
| As a percent of average loans, net of unearned income: | | | |
| Annualized net charge-offs | 0.05 | 0.44 | 0.58 |
| Annualized provision for loan losses | 0.11 | 0.44 | 0.55 |
| Total classified loans (loans rated substandard or doubtful) | \$8,140 | \$6,038 | \$5,203 |

Non-performing assets are comprised of (i) loans that are on a non-accrual basis, (ii) loans that are contractually past *due 90 days or more as to interest and principal payments, (iii) performing loans classified as a troubled debt restructuring and (iv) other real estate owned.

Overall, the Company continued to maintain strong asset quality in the first nine months of 2017 as evidenced by low levels of non-accrual loans and non-performing assets. However, total non-performing assets did increase since the end of the second quarter of 2017 due to the transfer of one CRE loan association into non-accrual status which had previously been classified as delinquent. It is believed that the Company's loss exposure on this credit is limited because it is well secured and has a low loan to value ratio. Overall, total loan delinquency levels and classified assets decreased during the third quarter of 2017 but remain higher than the December 31, 2016 level. The credits that

caused delinquency to increase since year end 2016 do not relate to cash flow underperformance but rather appears to be related to cash flow difficulties that certain borrowers are experiencing on a broader basis. We continue to actively work with the borrowers and take the necessary steps to ensure that the cash flow generated from these properties is being appropriately applied to

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the debt service on these loans. It is believed that the Company's loss exposure to these delinquent credits is limited since the loans are secured and have low loan to value ratios.

We also continue to closely monitor the loan portfolio given the continued slow recovery in the regional economy and the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of September 30, 2017, the 25 largest credits represented 27.2% of total loans outstanding, which represents a slight increase from the third quarter 2016 when it was 27.1%.

ALLOWANCE FOR LOAN LOSSES The following table sets forth the allowance for loan losses and certain ratios for the periods ended (in thousands, except percentages):

| | September 30, 2017 | December 31, 2016 | September 30, 2016 |
|--|-----------------------|----------------------|-----------------------|
| Allowance for loan losses | \$10,346 | \$9,932 | \$9,726 |
| Allowance for loan losses as a percentage of each of the following total loans, net of unearned income | 1.15 % | 1.12 % | 1.10 % |
| total accruing delinquent loans (past due 30 to 89 days) | 114.30 | 302.99 | 304.51 |
| total non-accrual loans | 222.30 | 619.59 | 554.82 |
| total non-performing assets | 192.59 | 611.58 | 510.02 |

The Company recorded a \$750,000 provision for loan losses in the first nine months of 2017 compared to a \$3.7 million provision for loan losses in the first nine months of 2016 or a decrease of \$2.9 million between periods. The loan loss provision was at a more typical level in 2017 and supports the continuing loan growth and the previously discussed higher level of criticized loans when compared to 2016. The provision more than covered the low level of net loan charge-offs incurred during the nine months.

LIQUIDITY The Company's liquidity position has been strong during the last several years. Our core retail deposit base has grown over the past five years and has been more than adequate to fund the Company's operations. Payments and prepayments from the loan portfolios, as well as, cash flow from maturities, prepayments and amortization of securities was also used to help fund loan growth over the past few years. We strive to operate our loan to deposit ratio in a range of 80% to 100%. For the first nine months of 2017, the Company's loan to deposit ratio has averaged 91.5%. We are optimistic that we can increase the loan to deposit ratio in 2018 given commercial loan pipelines, continued growth from our loan production offices and our focus on small business lending. However, we expect that total loans will remain relatively flat in the fourth quarter of 2017 due to several large expected loan pay-offs.

Liquidity can be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents decreased by \$5.4 million from December 31, 2016 to September 30, 2017, due to \$25.8 million of cash used in investing activities offset by \$5.5 million of cash provided by operating activities and \$14.9 million provided by financing activities. Within investing activities, cash utilized for new investment security purchases totaled \$37.0 million which more than exceeded cash provided from investment security maturities and sales by \$10.5 million. Cash advanced for new loan fundings and purchases (excluding residential mortgages sold in the secondary market) totaled \$128.2 million and was \$12.7 million higher than the \$115.4 million of cash received from loan principal payments and participations sold. Within financing activities, deposits decreased by \$865,000. As a result of this deposit decline, total borrowings increased as advances of short-term borrowings and purchases of FHLB term advances increased by \$30.3 million. At September 30, 2017, the Company had immediately available \$389 million of overnight borrowing capacity at the FHLB and \$35 million of unsecured federal funds lines with correspondent banks.

The holding company had \$10.7 million of cash, short-term investments, and investment securities at September 30, 2017. Additionally, dividend payments from our subsidiaries also provide ongoing cash to the holding company. At September 30, 2017, our subsidiary Bank had \$3.4 million of cash available for immediate dividends to the holding company under applicable regulatory formulas. Management follows a policy that limits dividend payments from the Trust Company to 75% of annual net income. Overall, we

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believe that the holding company has strong liquidity to meet its trust preferred debt service requirements, its subordinated debt interest payments, its common stock dividends, and support its common stock repurchase program.

CAPITAL RESOURCES The Bank meaningfully exceeds all regulatory capital ratios for each of the periods presented and is considered well capitalized. The Company's common equity tier 1 ratio was 9.92%, the tier 1 capital ratio was 11.15%, and the total capital ratio was 13.08% at September 30, 2017. The Company's tier 1 leverage was 9.32% at September 30, 2017. We anticipate that we will maintain our strong capital ratios throughout the remainder of 2017. Capital generated from earnings will be utilized to pay the common stock cash dividend, buyback shares under our stock repurchase program and will also support controlled balance sheet growth. There is a particular emphasis on ensuring that the subsidiary bank has appropriate levels of capital to support its non-owner occupied commercial real estate loan concentration which stood at 354% of regulatory capital at September 30, 2017.

On January 24, 2017, the Company's Board of Directors approved a new common stock repurchase program which calls for AmeriServ Financial, Inc. to buy back up to 5% or approximately 945,000 shares of its outstanding common stock during the next 18 months. The shares may be purchased from time to time in open market, privately negotiated, or block transactions. This common stock repurchase program does not obligate the Company to acquire any specific number of shares and may be modified, suspended or discontinued at any time. During the first nine months of 2017, the Company was able to repurchase 686,360 shares of its common stock and return \$2.8 million of capital to its shareholders through this program. As of September 30, 2017, the Company had approximately 18.3 million shares of its common stock outstanding. Overall, the Company was able to return 83.9% of its earnings through the first nine months of 2017 to its shareholders through accretive stock buybacks and cash dividends.

On January 1, 2015, U.S. federal banking agencies implemented the new Basel III capital standards, which establish the minimum capital levels to be considered well-capitalized and revise the prompt corrective action requirements under banking regulations. The revisions from the previous standards include a revised definition of capital, the introduction of a minimum Common Equity Tier 1 capital ratio and changed risk weightings for certain assets. The implementation of the new rules will be phased in over a four year period ending January 1, 2019 with minimum capital requirements becoming increasingly more strict each year of the transition. The new minimum capital requirements for each ratio, both, initially on January 1, 2015 and at the end of the transition on January 1, 2019, are as follows: A common equity tier 1 capital ratio of 4.50% initially and 7.00% at January 1, 2019; a tier 1 capital ratio of 6.00% and 8.50%; a total capital ratio of 8.00% and 10.50%; and a tier 1 leverage ratio of 5.00% and 5.00%. Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer above its minimum risk-based capital requirements, which increases over the transition period, from 0.625% of total risk weighted assets in 2016 to 2.50% in 2019. The Company continues to be committed to maintaining strong capital levels that exceed regulatory requirements while also supporting balance sheet growth and providing a return to our shareholders.

INTEREST RATE SENSITIVITY The following table presents an analysis of the sensitivity inherent in the Company's net interest income and market value of portfolio equity. The interest rate scenarios in the table compare the Company's base forecast, which was prepared using a flat interest rate scenario, to scenarios that reflect immediate interest rate changes of 100 and 200 basis points. Note that we suspended the 200 basis point downward rate shock since it has little value due to the absolute low level of interest rates. Each rate scenario contains unique prepayment and repricing assumptions that are applied to the Company's existing balance sheet that was developed under the flat interest rate scenario.

Interest Rate Scenario

| | Variability of Net Interest Income | | Change in Market Value of Portfolio Equity | |
|----------------|---------------------------------------|---|--|---|
| 200bp increase | 2.3 | % | 21.7 | % |
| 100bp increase | 1.6 | | 12.9 | |
| 100bp decrease | (2.0 |) | (18.0 |) |

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The Company believes that its overall interest rate risk position is well controlled. The variability of net interest income is positive in the upward rate shocks due to the Company's short duration investment securities portfolio, the scheduled repricing of loans tied to LIBOR or prime, and the extension of a portion of borrowed funds. Also, the Company expects that it will not have to reprice its core deposit accounts up as quickly as interest rates rise. The variability of net interest income is negative in the 100 basis point downward rate scenario as the Company has more exposure to assets repricing downward to a greater extent than liabilities due to the absolute low level of interest rates with the fed funds rate currently at approximately 1.25%. The market value of portfolio equity increases in the upward rate shocks due to the improved value of the Company's core deposit base. Negative variability of market value of portfolio equity occurs in the downward rate shock due to a reduced value for core deposits.

OFF BALANCE SHEET ARRANGEMENTS The Company incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The Company had various outstanding commitments to extend credit approximating \$169.6 million and standby letters of credit of \$10.3 million as of September 30, 2017. The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES The accounting and reporting policies of the Company are in accordance with Generally Accepted Accounting Principles and conform to general practices within the banking industry. Accounting and reporting policies for the allowance for loan losses, goodwill, income taxes, and investment securities are deemed critical because they involve the use of estimates and require significant management judgments. Application of assumptions different than those used by the Company could result in material changes in the Company's financial position or results of operation.

| | |
|-----------------------------------|----------------------------------|
| ACCOUNT | Allowance for Loan Losses |
| BALANCE SHEET REFERENCE | Allowance for loan losses |
| INCOME STATEMENT REFERENCE | Provision for loan losses |
| DESCRIPTION | |

The allowance for loan losses is calculated with the objective of maintaining reserve levels believed by management to be sufficient to absorb estimated probable credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the credit portfolio and other relevant factors. However, this quarterly evaluation is inherently subjective as it requires material estimates, including, among others, likelihood of customer default, loss given default, exposure at default, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on consumer loans and residential mortgages, and general amounts for historical loss experience. This process also considers economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios. All of these factors may be susceptible to significant change. Also, the allocation of the allowance for credit losses to specific loan pools is based on historical loss trends and management's judgment concerning those trends.

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Commercial and commercial real estate loans are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan loss. Approximately \$8.0 million, or 77%, of the total allowance for loan losses at September 30, 2017 has been allocated to these two loan categories.

This allocation also considers other relevant factors such as actual versus estimated losses, economic trends, delinquencies, levels of non-performing and TDR loans, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions. To the extent actual outcomes differ from management estimates, additional provision for loan losses may be required that would adversely impact earnings in future periods.

ACCOUNT Goodwill
BALANCE SHEET REFERENCE Goodwill
INCOME STATEMENT REFERENCE Goodwill impairment
DESCRIPTION

The Company considers our accounting policies related to goodwill to be critical because the assumptions or judgment used in determining the fair value of assets and liabilities acquired in past acquisitions are subjective and complex. As a result, changes in these assumptions or judgment could have a significant impact on our financial condition or results of operations.

The fair value of acquired assets and liabilities, including the resulting goodwill, was based either on quoted market prices or provided by other third party sources, when available. When third party information was not available, estimates were made in good faith by management primarily through the use of internal cash flow modeling techniques. The assumptions that were used in the cash flow modeling were subjective and are susceptible to significant changes. The Company routinely utilizes the services of an independent third party that is regarded within the banking industry as an expert in valuing core deposits to monitor the ongoing value and changes in the Company's core deposit base. These core deposit valuation updates are based upon specific data provided from statistical analysis of the Company's own deposit behavior to estimate the duration of these non-maturity deposits combined with market interest rates and other economic factors.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. The Company's goodwill relates to value inherent in the banking and wealth management businesses, and the value is dependent upon the Company's ability to provide quality, cost-effective services in the face of free competition from other market participants on a regional basis. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of the Company's services. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted and the loyalty of the Company's deposit and customer base over a longer time frame. The quality and value of a Company's assets is also an important factor to consider when performing goodwill impairment testing. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective value added services over sustained periods can lead to impairment of goodwill.

Goodwill which has an indefinite useful life is tested for impairment at least annually and written down and charged to results of operations only in periods in which the recorded value is more than the estimated fair value.

ACCOUNT Income Taxes
BALANCE SHEET REFERENCE Net deferred tax asset
INCOME STATEMENT REFERENCE Provision for income tax expense
DESCRIPTION

The provision for income taxes is the sum of income taxes both currently payable and deferred. The changes in deferred tax assets and liabilities are determined based upon the changes in differences between the basis of assets and liabilities for financial reporting purposes and the basis of assets and liabilities as measured by the enacted tax rates that management estimates will be in effect when the differences reverse. This income tax review is completed on a quarterly basis.

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In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related timing of the expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of September 30, 2017, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered and that no valuation allowances were needed.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

| ACCOUNT | Investment Securities | |
|-----------------------------------|--|--------------------|
| BALANCE SHEET REFERENCE | Investment securities | |
| INCOME STATEMENT REFERENCE | Net realized gains on investment securities | DESCRIPTION |

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operations. At September 30, 2017, the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by government agencies or government sponsored agencies and certain high quality corporate and taxable municipal securities. The Company believes the unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

FORWARD LOOKING STATEMENT

THE STRATEGIC FOCUS:

The challenge for the future is to improve earnings performance toward peer levels through a disciplined focus on community banking and improving the profitability of our Trust Company. In accordance with our strategic plan, the Company will maintain its focus as a community bank delivering banking and trust services to the best of our ability and focus on further growing revenues by leveraging our strong capital base and infrastructure. It is our plan to continue to build the Company into a potent banking force in this region and in this industry. Our focus encompasses the following:

Customer Service It is the existing and prospective customer that the Company must satisfy. This means good products and fair prices. But it also means quick response time and professional competence. It means speedy problem resolution and a minimizing of bureaucratic frustrations. The Company is training and motivating its staff to meet these standards while providing customers with more banking options that involve leading technologies such as computers, smartphones, and tablets to conduct business.

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Revenue Growth It is necessary for the Company to focus on growing revenues. This means loan growth, deposit growth and fee growth. It also means close coordination between all customer service areas so that revenue producing products can be presented to existing and prospective customers to meet their banking needs. The Company's Strategic Plan contains action plans in each of these areas particularly on increasing loans through our loan production offices. There will be a particular focus on small business commercial lending. An examination of the peer bank database provides ample proof that a well-executed community banking business model can generate a reliable and rewarding revenue stream.

Expense Rationalization The Company remains focused on trying to reduce and rationalize expenses. This has not been a program of broad based cuts, but has been targeted so the Company stays strong but spends less. It is critical to be certain that future expenditures are directed to areas that are playing a positive role in the drive to improve revenues. The Company's also recently completed three additional initiatives that will further reduce non-interest expenses and improve the Company's future profitability. Specifically, at the end of the first quarter of 2016, the Company closed its Southern Atherton branch office in the State College market and consolidated the retail customer accounts from this branch into its nearby and newer branch office located on North Atherton Street. The Company remains committed to the State College market and this change will allow for a more efficient operation that will allow us to better compete in this demographically attractive but highly competitive banking market. The Company also realigned its executive leadership team by eliminating one senior position in its executive office. Finally, the Company closed its Harrisonburg, Virginia loan production office. The combined annual cost savings from these profitability improvement initiatives approximates \$1.2 million, which the Company is fully realizing in the 2017.

This Form 10-Q contains various forward-looking statements and includes assumptions concerning the Company's beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, operations, future results, and prospects, including statements that include the words may, could, should, would, believe, expect, anticipate, intend, project, plan or similar expressions. These forward-looking statements are based upon current expectations, are subject to risk and uncertainties and are applicable only as of the dates of such statements. Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Form 10-Q, even if subsequently made available on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Form 10-Q. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary statement identifying important factors (some of which are beyond the Company's control) which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

Such factors include the following: (i) the effect of changing regional and national economic conditions; (ii) the effects of trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve; (iii) significant changes in interest rates and prepayment speeds; (iv) inflation, stock and bond market, and monetary fluctuations; (v) credit risks of commercial, real estate, consumer, and other lending activities; (vi) changes in federal and state banking and financial services laws and regulations; (vii) the presence in the Company's market area of competitors with greater financial resources than the Company; (viii) the timely development of competitive new products and services by the Company and the acceptance of those products and services by customers and regulators (when required); (ix) the willingness of customers to substitute competitors' products and services for those of the Company and vice versa; (x) changes in consumer spending and savings habits; (xi) unanticipated regulatory or judicial proceedings; and (xii) other external developments which could materially impact the Company's operational and financial performance.

The foregoing list of important factors is not exclusive, and neither such list nor any forward-looking statement takes into account the impact that any future acquisition may have on the Company and on any such forward-looking statement.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK The Company manages market risk, which for the Company is primarily interest rate risk, through its asset liability management process and committee, see further discussion in Interest Rate Sensitivity section of the M.D. & A.

Item 4. CONTROLS AND PROCEDURES (a) Evaluation of Disclosure Controls and Procedures. The Company's management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and the operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2017, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer along with the Chief Financial Officer concluded that the Company's disclosure controls and procedures as of September 30, 2017, are effective.

(b) Changes in Internal Controls. There have been no changes in AmeriServ Financial Inc.'s internal controls over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

There are no material proceedings to which the Company or any of our subsidiaries are a party or by which, to the Company's knowledge, we, or any of our subsidiaries, are threatened. All legal proceedings presently pending or threatened against the Company or our subsidiaries involve routine litigation incidental to our business or that of the subsidiary involved and are not material in respect to the amount in controversy.

Item 1A. Risk Factors

Not Applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Following are the Company's monthly common stock purchases during the third quarter of 2017. All shares are repurchased under Board of Directors authorization.

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plan | Maximum number of shares that may yet be purchased under the plan |
|------------------------|----------------------------------|------------------------------|---|---|
| July 1 - 31, 2017 | 33,400 | \$ 4.02 | 33,400 | 445,644 |
| August 1 - 31, 2017 | 123,631 | 4.05 | 123,631 | 322,013 |
| September 1 - 30, 2017 | 63,373 | 3.99 | 63,373 | 258,640 |

| | | | |
|-------|---------|---------|---------|
| Total | 220,404 | \$ 4.03 | 220,404 |
|-------|---------|---------|---------|

In first six months of 2017, the Company was able to repurchase 465,956 shares at an average price of \$4.01. On a year to date basis the Board of Director approved repurchase plan had a total of 686,360 shares repurchased at an average price of \$4.02. This represents approximately 73% of the authorized repurchase plan.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

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Item 6. Exhibits

- Amended and Restated Articles of Incorporation as amended through August 11, 2011
- 3.1 (Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-8 (File No. 333-176869) filed on September 16, 2011).
- 3.2 Bylaws, as amended and restated on May 18, 2017 (Incorporated by reference to Exhibit 3.2 to the Current report on Form 8-K filed on May 23, 2017).
- 15.1 Report of S.R. Snodgrass, P.C. regarding unaudited interim financial statement information.
- 15.2 Awareness Letter of S.R. Snodgrass, P.C.
- 31.1 Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following information from AMERISERV FINANCIAL, INC.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eTensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) Consolidated Statements of Comprehensive Income (unaudited), (iv) Consolidated Statements of Cash Flows (unaudited), and (iv) Notes to the Unaudited Consolidated Financial Statements.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AmeriServ Financial, Inc.
Registrant

/s/ Jeffrey A. Stopko

Date: November 3, 2017

Jeffrey A. Stopko
President and Chief Executive Officer
/s/ Michael D. Lynch

Date: November 3, 2017

Michael D. Lynch
Senior Vice President and Chief Financial Officer