AMERISERV FINANCIAL INC /PA/
Form 10-K
March 03, 2017

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

FORM 10-K

(MARK ONE)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-11204

AMERISERV FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

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, PENNSYLVANIA (Address of principal executive offices)	**15907-0430** (Zip Code)

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

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

Title Of Each Class	Name Of Each Exchange On Which Registered
Common Stock, Par Value $0.01 Per Share	The NASDAQ Stock Market LLC
8.45% Beneficial Unsecured Securities, Series A (AmeriServ Financial Capital Trust I)	The NASDAQ Stock Market LLC

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the business day of the registrant s most recently completed second fiscal quarter. The aggregate market value was $57,068,566 as of June 30, 2016.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. There were 18,903,472 shares outstanding as of January 31, 2017.

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the proxy statement for the annual shareholders meeting are incorporated by reference in Parts II and III.

FORM 10-K INDEX

PART I

ITEM 1. BUSINESS

GENERAL

AmeriServ Financial, Inc. (the Company) is a bank holding company organized under the Pennsylvania Business Corporation Law. The Company became a holding company upon acquiring all of the outstanding shares of AmeriServ Financial Bank (the Bank) in January 1983. The Company s other wholly owned subsidiaries include AmeriServ Trust and Financial Services Company (the Trust Company), formed in October 1992, and AmeriServ Life Insurance Company (AmeriServ Life), formed in October 1987. When used in this report, the Company may refer to AmeriServ Financial, Inc. individually or AmeriServ Financial, Inc. and its direct and indirect subsidiaries.

The Company s principal activities consist of owning and operating its three wholly owned subsidiary entities. At December 31, 2016, the Company had, on a consolidated basis, total assets, deposits, and shareholders equity of $1.154 billion, $968 million, and $95 million, respectively. The Company and its subsidiaries derive substantially all of their income from banking and bank-related services. The Company functions primarily as a coordinating and servicing unit for its subsidiary entities in general management, accounting and taxes, loan review, auditing, investment accounting, marketing and risk management.

As a bank holding company, the Company is subject to supervision and regular examination by the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking and Securities (the PDB). The Company is also under the jurisdiction of the Securities and Exchange Commission (the SEC) for matters relating to registered offerings and sales of its securities under the Securities Act of 1933, as amended, and the disclosure and regulatory requirements of the Securities Exchange Act of 1934, as amended. The Company s common stock is listed on the NASDAQ Stock Market under the trading symbol ASRV, and the Company is subject to the NASDAQ rules applicable to listed companies.

AMERISERV FINANCIAL BANKING SUBSIDIARY

AMERISERV FINANCIAL BANK

The Bank is a state bank chartered under the Pennsylvania Banking Code of 1965, as amended (the Banking Code). Through 16 locations in Allegheny, Cambria, Centre, Somerset, and Westmoreland counties, Pennsylvania, the Bank conducts a general banking business. It is a full-service bank offering (i) retail banking services, such as demand, savings and time deposits, checking accounts, money market accounts, secured and unsecured consumer loans, mortgage loans, safe deposit boxes, holiday club accounts, money orders, and traveler s checks; and (ii) lending, depository and related financial services to commercial, industrial, financial, and governmental customers, such as commercial real estate mortgage loans (CRE), short and medium-term loans, revolving credit arrangements, lines of credit, inventory and accounts receivable financing, real estate-construction loans, business savings accounts, certificates of deposit, wire transfers, night depository, and lock box services. The Bank also operates 18 automated bank teller machines (ATMs) through its 24-hour banking network that is linked with NYCE, a regional ATM network, and CIRRUS, a national ATM network. West Chester Capital Advisors (WCCA), a SEC registered investment advisor, is also a subsidiary of the Bank. The Company also operates loan production offices (LPOs) in Monroeville and Altoona in Pennsylvania, and in Hagerstown, Maryland.

We believe that the Bank s deposit base is such that loss of one depositor or a related group of depositors would not have a materially adverse effect on its business. The Bank s business is not seasonal, nor does it have any risks attendant to foreign sources. A significant majority of the Bank s customer base is located within a 150 mile radius of

Johnstown, Pennsylvania, the Bank s headquarters.

2

The Bank is subject to supervision and regular examination by the Federal Reserve Bank of Philadelphia and the PDB. Various federal and state laws and regulations govern many aspects of its banking operations. The following is a summary of key data (dollars in thousands) and ratios of the Bank at December 31, 2016:

Headquarters	Johnstown, PA
Total Assets	**$1,134,827**
Total Investment Securities	**149,178**
Total Loans and Loans Held for Sale (net of unearned income)	**886,858**
Total Deposits	**967,986**
Total Net Income	**3,379**
Asset Leverage Ratio	**8.61** %
Return on Average Assets	**0.30**
Return on Average Equity	**3.32**
Total Full-time Equivalent Employees	**235**

RISK MANAGEMENT OVERVIEW:

Risk identification and management are essential elements for the successful management of the Company. In the normal course of business, the Company is subject to various types of risk, which includes credit, interest rate and market, liquidity, operational, legal/compliance, strategic/reputational and security risk. The Company controls and monitors these risks with policies, procedures, and various levels of oversight from the Company s Board of Directors (the Board) and management. The Company has both a Management Enterprise Risk Committee and a Board Enterprise Risk Committee to help manage and monitor the Company s risk position.

Interest rate risk is the sensitivity of net interest income and the market value of financial instruments to the magnitude, direction, and frequency of changes in interest rates. Interest rate risk results from various repricing frequencies and the maturity structure of assets and liabilities. The Company uses its asset liability management policy to control and manage interest rate risk.

Liquidity risk represents the inability to generate cash or otherwise obtain funds at reasonable rates to satisfy commitments to borrowers, as well as the obligations to depositors, debtholders and the funding of operating costs. The Company uses its asset liability management policy and contingency funding plan to control and manage liquidity risk.

Credit risk represents the possibility that a customer may not perform in accordance with contractual terms resulting in an economic loss to the organization. Credit risk results from extending credit to customers, purchasing securities, and entering into certain off-balance sheet loan funding commitments. The Company s primary credit risk occurs in the loan portfolio. The Company uses its credit policy and disciplined approach to evaluating the adequacy of the allowance for loan losses (the ALL) to control and manage credit risk. The Company s investment policy and hedging policy limit the amount of credit risk that may be assumed in the investment portfolio and through hedging activities. The following summarizes and describes the Company s various loan categories and the underwriting standards applied to each:

Commercial Loans

This category includes credit extensions to commercial and industrial borrowers. Business assets, including accounts receivable, inventory and/or equipment, typically secure these credits. In appropriate instances, extensions of credit in this category are subject to collateral advance formulas. Balance sheet strength and profitability are considered when analyzing these credits, with special attention given to historical, current and prospective sources of cash flow, and the ability of the customer to sustain cash flow at acceptable levels. The Bank s policy permits flexibility in determining acceptable debt service coverage ratios. Personal guarantees are frequently required; however, as the financial strength of the borrower increases, the Bank s ability to obtain personal guarantees decreases. In addition to economic risk, this category is impacted by the strength of the borrower s management, industry risk and portfolio concentration risk each of which are also monitored and considered during the underwriting process.

3

Commercial Loans Secured by Real Estate

This category includes various types of loans, including acquisition and construction of investment property, owner-occupied property and operating property. Maximum term, minimum cash flow coverage, leasing requirements, maximum amortization and maximum loan to value ratios are controlled by the Bank s credit policy and follow industry guidelines and norms, and regulatory limitations. Personal guarantees are normally required during the construction phase on construction credits and are frequently obtained on mid to smaller CRE loans. In addition to economic risk, this category is subject to geographic and portfolio concentration risk, each of which are monitored and considered in underwriting.

Residential Real Estate Mortgages

This category includes mortgages that are secured by residential property. Underwriting of loans within this category is pursuant to Freddie Mac/Fannie Mae underwriting guidelines, with the exception of Community Reinvestment Act (CRA) loans, which have more liberal standards. The major risk in this category is that a significant downward economic trend would increase unemployment and cause payment default. The Bank does not engage and has never engaged, in subprime residential mortgage lending.

Consumer Loans

This category includes consumer installment loans and revolving credit plans. Underwriting is pursuant to industry norms and guidelines. The major risk in this category is a significant economic downturn.

INVESTMENTS

The investment securities portfolio of the Company and its subsidiaries is managed primarily to provide ample liquidity to fund, for example, loan growth and secondarily for earnings in a manner that is consistent with proper bank asset/liability management and current banking practices. The objectives of portfolio management include consideration of proper liquidity levels, interest rate and market valuation sensitivity, and profitability. The investment portfolio of the Company and its subsidiaries are proactively managed in accordance with federal and state laws and regulations and in accordance with generally accepted accounting principles (GAAP).

The investment portfolio is primarily made up of AAA rated agency mortgage-backed securities and short maturity agency securities. Beginning in 2012, the Company began to add high quality corporate securities and select taxable municipal securities to the portfolio. Management strives to maintain a relatively short duration in the portfolio. All holdings must meet standards documented in its investment policy.

Investment securities classified as held to maturity are carried at amortized cost while investment securities classified as available for sale are reported at fair market value. The following table sets forth the cost basis and fair value of the Company s investment portfolio as of the periods indicated:

Investment securities available for sale at:

	AT DECEMBER 31,		
	2016	2015	2014
	(IN THOUSANDS)		
U.S. Agency	**$ 400**	$ 2,900	$ 5,931
Taxable municipal	**3,793**		

Corporate bonds	**34,403**	18,541	15,497
U.S. Agency mortgage-backed securities	**88,738**	96,801	102,888
Total cost basis of investment securities available for sale	**$ 127,334**	$ 118,242	$ 124,316
Total fair value of investment securities available for sale	**$ 127,077**	$ 119,467	$ 127,110

4

Investment securities held to maturity at:

	AT DECEMBER 31,		
	2016	2015	2014
	(IN THOUSANDS)		
Taxable municipal	**$ 13,441**	$ 5,592	$ 3,364
U.S. Agency mortgage-backed securities	**11,177**	10,827	12,481
Corporate bonds and other securities	**6,047**	5,000	3,995
Total cost basis of investment securities held to maturity	**$ 30,665**	$ 21,419	$ 19,840
Total fair value of investment securities held to maturity	**$ 30,420**	$ 21,533	$ 20,213

DEPOSITS AND OTHER SOURCES OF FUNDS

Deposits

The Bank has a stable core deposit base made up of traditional commercial bank products that exhibits little fluctuation, other than jumbo certificates of deposits (CDs), which demonstrate some seasonality. The Company also utilizes certain Trust Company specialty deposits related to the ERECT Fund as a funding source which serve as an alternative to wholesale borrowings and can exhibit some limited degree of volatility.

The following table sets forth the average balance of the Company s deposits and average rates paid thereon for the past three calendar years:

	AT DECEMBER 31,					
	2016		2015		2014	
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Demand:						
Non-interest bearing	**$ 182,732**	**%**	$ 171,175	%	$ 155,365	%
Interest bearing	**108,350**	**0.29**	97,201	0.21	97,641	0.20
Savings	**95,986**	**0.17**	94,425	0.17	89,554	0.16
Money market	**277,967**	**0.43**	242,298	0.34	228,150	0.33
Other time	**290,612**	**1.28**	287,783	1.24	300,915	1.26
Total deposits	**$ 955,647**	**0.70 %**	$ 892,882	0.66 %	$ 871,625	0.68 %

Loans

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,				
	2016	2015	2014	2013	2012
	(IN THOUSANDS)				
Commercial	**$ 171,563**	$ 181,115	$ 139,158	$ 120,120	$ 102,864
Commercial loans secured by real estate(1)	**447,040**	422,145	410,851	412,254	383,934
Real estate-mortgage(1)	**245,765**	257,937	258,616	235,689	217,584
Consumer	**19,872**	20,344	19,009	15,864	17,420
Total loans	**884,240**	881,541	827,634	783,927	721,802
Less: Unearned income	**476**	557	554	581	637
Total loans, net of unearned income	**$ 883,764**	$ 880,984	$ 827,080	$ 783,346	$ 721,165

(1) For each of the periods presented beginning with December 31, 2016, real estate-construction loans constituted 4.7%, 3.0%, 3.5%, 3.0% and 2.0% of the Company s total loans, net of unearned income, respectively.

5

Secondary Market Activities

The residential lending department of the Bank continues to originate one-to-four family mortgage loans for customers, the majority of which are sold to outside investors in the secondary market and some of which are retained for the Bank s portfolio. Mortgages sold on the secondary market are sold to investors on a flow basis; mortgages are priced and delivered on a best efforts pricing basis, with servicing released to the investor. Fannie Mae/Freddie Mac guidelines are used in underwriting all mortgages with the exception of a limited amount of CRA loans. Mortgages with longer terms, such as 20-year, 30-year, FHA, and VA loans, are usually sold. The remaining production of the department includes construction, adjustable rate mortgages, quality non-salable loans, and bi-weekly mortgages. These loans are usually kept in the Bank s portfolio. New portfolio production is predominately adjustable rate mortgages.

Non-performing Assets

The following table presents information concerning non-performing assets:

	AT DECEMBER 31,				
	2016	2015	2014	2013	2012
	(IN THOUSANDS, EXCEPT PERCENTAGES)				
Non-accrual loans:					
Commercial	**$496**	$4,260	$	$	$
Commercial loans secured by real estate	**178**	18	778	1,632	4,623
Real estate-mortgage	**929**	1,788	1,417	1,239	1,191
Total	**1,603**	6,066	2,195	2,871	5,814
Other real estate owned:					
Commercial loans secured by real estate			384	344	1,101
Real estate-mortgage	**21**	75	128	673	127
Total	**21**	75	512	1,017	1,228
Total restructured loans not in non-accrual (TDR)		156	210	221	182
Total non-performing assets including TDR	**$1,624**	$6,297	$2,917	$4,109	$7,224
Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned	**0.18 %**	0.71 %	0.35 %	0.52 %	1.00 %

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. Other real estate owned (OREO) is measured at fair value based on appraisals, less cost to sell at the date of foreclosure. The Company had no loans past due 90 days or more, still accruing, for the periods presented.

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.

	YEAR ENDED DECEMBER 31,				
	2016	2015	2014	2013	2012
	(IN THOUSANDS)				

Interest income due in accordance with original terms	**$118**	$ 94	$ 136	$ 178	$ 231
Interest income recorded					
Net reduction in interest income	**$118**	$ 94	$ 136	$ 178	$ 231

6

AMERISERV FINANCIAL NON-BANKING SUBSIDIARIES

AMERISERV TRUST AND FINANCIAL SERVICES COMPANY

AmeriServ Trust and Financial Services Company is a trust company organized under Pennsylvania law in October 1992. Its staff of approximately 46 professionals administers assets valued at approximately $2.0 billion that are not recognized on the Company s balance sheet at December 31, 2016. The Trust Company focuses on wealth management. 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. This segment also includes financial services, which include the sale of mutual funds, annuities, and insurance products. The wealth management business also includes the union collective investment funds, namely the ERECT and BUILD funds which are designed to use union pension dollars in construction projects that utilize union labor. The BUILD fund continues in the process of liquidation. At December 31, 2016, the Trust Company had total assets of $4.8 million and total stockholder s equity of $4.8 million. In 2016, the Trust Company contributed earnings to the Company as its gross revenue amounted to $8.0 million and the net income contribution was $905,000. The Trust Company is subject to regulation and supervision by the Federal Reserve Bank of Philadelphia and the PDB.

AMERISERV LIFE

AmeriServ Life is a captive insurance company organized under the laws of the State of Arizona. AmeriServ Life engages in underwriting as reinsurer of credit life and disability insurance within the Company s market area. Operations of AmeriServ Life are conducted in each office of the Company s banking subsidiary. AmeriServ Life is subject to supervision and regulation by the Arizona Department of Insurance, the Pennsylvania Insurance Department, and the Board of Governors of the Federal Reserve System (the Federal Reserve). At December 31, 2016, AmeriServ Life had total assets of $384,000.

MONETARY POLICIES

Commercial banks are affected by policies of various regulatory authorities including the Federal Reserve. An important function of the Federal Reserve is to regulate the national supply of bank credit. Among the instruments of monetary policy used by the Federal Reserve are: open market operations in U.S. Government securities, changes in the federal funds rate and discount rate on member bank borrowings, and changes in reserve requirements on bank deposits. These means are used in varying combinations to influence overall growth of bank loans, investments, and deposits, and may also affect interest rate charges on loans or interest paid for deposits. The monetary policies of the Federal Reserve have had, and will continue to have, a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

COMPETITION

Our subsidiaries face strong competition from other commercial banks, savings banks, credit unions, savings and loan associations, and other financial or investment service institutions for business in the communities they serve. Several of these institutions are affiliated with major banking and financial institutions which are substantially larger and have greater financial resources than the Bank and the Trust Company. As the financial services industry continues to consolidate, the scope of potential competition affecting our subsidiaries will also increase. Brokerage houses, consumer finance companies, insurance companies, and pension trusts are important competitors for various types of financial services. In addition, personal and corporate trust investment counseling services are offered by insurance companies, other firms, and individuals.

MARKET AREA & ECONOMY

Johnstown, Pennsylvania, where the Company is headquartered, continues to have a cost of living that is lower than the national average. Johnstown is home to The University of Pittsburgh at Johnstown, Pennsylvania Highlands Community College and Conemaugh Health System. The high-tech defense industry is now the main non-health care staple of the Johnstown economy, with the region fulfilling many Federal government contracts, punctuated by one of the premier defense trade shows in the U.S., the annual Showcase

7

For Commerce. The city also hosts annual events such as the Flood City Music Festival and the Thunder in the Valley Motorcycle Rally, which draw several thousand visitors. The Johnstown, PA MSA unemployment rate increased from a 6.5% average in 2015 to a 6.8% average in 2016. The Johnstown, PA MSA continues to have the highest jobless rate among the 18 metropolitan statistical areas across the state. This coupled with a declining population trend creates a challenge moving forward.

Economic conditions are stronger in the State College market and have demonstrated the same improvement experienced in the national economy. The community is a college town, dominated economically and demographically by the presence of the University Park campus of the Pennsylvania State University. Happy Valley is another often-used term to refer to the State College area, including the borough and the townships of College, Harris, Patton, and Ferguson. The unemployment rate for State College MSA increased from a 3.8% average in 2015 to a 4.1% average in 2016 and remains the one of the lowest of all regions in the Commonwealth. A large percentage of the population in State College falls into the 18 to 34 year old age group, while potential customers in the Cambria/Somerset markets tend to be over 50 years of age.

The Company also has loan production offices in Monroeville in Allegheny County, Altoona in Blair County, Pennsylvania, and Hagerstown in Washington County, Maryland. Monroeville in Allegheny County, Pennsylvania is located 15 miles east of the city of Pittsburgh. While the city is historically known for its steel industry, today its economy is largely based on healthcare, education, technology and financial services. The city of Pittsburgh is home to many colleges, universities and research facilities, the most well-known of which are Carnegie Mellon University, Duquesne University and the University of Pittsburgh. Pittsburgh is rich in art and culture. Pittsburgh museums and cultural sites include the Andy Warhol Museum, the Carnegie Museum of Art, the Frick Art & Historical Center, and Pittsburgh Center for the Arts among numerous others. Pittsburgh is also the home of the Pirates, Steelers and Penguins. The unemployment rate for Pittsburgh MSA increased from a 5.2% average in 2015 to a 5.7% average in 2016.

Altoona is the business center of Blair County, Pennsylvania with a strong retail, government and manufacturing base. The top field of employment in Altoona and the metro area is healthcare. Its location along I-99 draws from a large trade area over a wide geographic area that extends to State College and Johnstown. It serves as the headquarters for Sheetz Corporation, which ranks on Forbes list of the top privately owned companies. In addition to being located adjacent to I-99 and a major highway system, Altoona also has easy access to rail and air transportation. The unemployment rate in the Altoona MSA increased from a 5.1% average in 2015 to a 5.3% average in 2016.

Hagerstown in Washington County, Maryland offers a rare combination of business advantages providing a major crossroads location that is convenient to the entire East Coast at the intersection of I-81 and I-70. It has a workforce of over 400,000 with strengths in manufacturing and technology. It also offers an affordable cost of doing business and living within an hour of the Washington, D.C./Baltimore regions. There are also plenty of facilities and land slated for industrial/commercial development. Hagerstown has become a choice location for manufacturers, financial services, and distribution companies. The Hagerstown, MD-Martinsburg, WV MSA unemployment rate improved from a 5.5% average in 2015 to a 4.6% average in 2016.

EMPLOYEES

The Company employed 326 people as of December 31, 2016 in full- and part-time positions. Approximately 159 non-supervisory employees of the Company are represented by the United Steelworkers, AFL-CIO-CLC, Local Union 2635-06. The Company is under a four year labor contract with the United Steelworkers Local that will expire on October 15, 2017. The contract calls for annual wage increases of 3.0%. Additionally, effective January 1, 2014, the Company implemented a soft freeze of its defined benefit pension plan for union employees. A soft freeze means that all existing union employees as of December 31, 2013 currently participating will remain in the defined benefit pension plan but any new union employees hired after January 1, 2014 will no longer be part of the defined benefit plan but instead will be offered retirement benefits under an enhanced 401(k) program. The Company has not experienced a work stoppage since 1979. The Company is one of an estimated ten union-represented banks nationwide.

8

INDUSTRY REGULATION

The banking and trust industry, and the operation of bank holding companies, is highly regulated by federal and state law, and by numerous regulations adopted by the federal banking agencies and state banking agencies. Bank regulation affects all aspects of conducting business as a bank, including such major items as minimum capital requirements, limits on types and amounts of investments, loans and other assets, as well as borrowings and other liabilities, and numerous restrictions or requirements on the loan terms and other products made available to customers, particularly consumers. Federal deposit insurance from the Federal Deposit Insurance Corporation (the FDIC) is required for all banks in the United States, and maintaining FDIC insurance requires observation of the various rules of the FDIC, as well as payment of deposit premiums. New branches, or acquisitions or mergers, are required to be pre-approved by the responsible agency, which in the case of the Company and the Bank is the Federal Reserve and the PDB. The Bank provides detailed financial information to its regulators, including a quarterly call report that is filed pursuant to detailed prescribed instructions to ensure that all U.S. banks report the same way. The U.S. banking laws and regulations are frequently updated and amended, especially in response to crises in the financial industry, such as the global financial crisis of 2008, which resulted in the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in 2010 (the Dodd-Frank Act), a statute affecting many facets of the financial industry.

While it is impractical to discuss all laws and regulations that regularly affect the business of the Company and its subsidiaries, set forth below is an overview of some of the major provisions and statutes that apply.

CAPITAL REQUIREMENTS

One of the most significant regulatory requirements for banking institutions is minimal capital, imposed as a ratio of capital to assets. The Federal Deposit Insurance Act, as amended (the FDIA), identifies five capital categories for insured depository institutions: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. It requires U.S. federal bank regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements based on these categories. The FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Unless a bank is well capitalized, it is subject to restrictions on its ability to utilize brokered deposits and on other aspects of its operations. Generally, a bank is prohibited from paying any dividend or making any capital distribution or paying any management fee to its holding company if the bank would thereafter be undercapitalized.

As of December 31, 2016, the Company believes that its bank subsidiary was well capitalized, based on the prompt corrective action guidelines described above. As discussed below, however, the capital requirements for all banks are being increased under the Dodd-Frank Act. Specifically, on July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. The final rules implement the Basel III regulatory capital reforms, as well as certain changes required by the Dodd-Frank Act. The July 2013 final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new capital to risk-adjusted assets requirements (which includes the impact of the capital conservation buffer effective January 1, 2016) are as follows:

	Minimum Capital Effective January 1, 2015	2016	Well Capitalized
Common equity tier 1 capital ratio	4.5 %	5.125 %	6.5 %

Tier 1 capital ratio	6.0 %	6.625 %	8.0 %
Total capital ratio	8.0 %	8.625 %	10.0 %

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 comprised of common equity tier 1 capital above its minimum risk-based capital

9

requirements in an amount greater than 2.5% of total risk-weighted assets. The capital conservation buffer, which is composed of common equity tier 1 capital, began on January 1, 2016 at the 0.625% level and will be phased in over a three year period (increasing by that amount on each January 1, until it reaches 2.5% on January 1, 2019). Implementation of the deductions and other adjustments to common equity tier 1 capital began on January 1, 2015 and will be phased-in over a three-year period (beginning at 40% on January 1, 2015, 60% on January 1, 2016 and an additional 20% per year thereafter). The Company is continuing to review the impact of these new rules and currently expects that its capital position will be more than adequate to meet the revised regulatory capital requirements.

DIVIDEND RESTRICTIONS

The primary source of cash to pay dividends, if any, to the Company s shareholders and to meet the Company s obligations is dividends paid to the Company by the Bank and the Trust Company. Dividend payments by the Bank to the Company are subject to the laws of the Commonwealth of Pennsylvania, the Banking Code, the FDIA and the regulation of the PDB and of the Federal Reserve. Under the Banking Act and the FDIA, a bank may not pay any dividends if, after paying such dividends, it would be undercapitalized under applicable capital requirements. In addition to these explicit limitations, the federal regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in unsafe or unsound banking practices. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

It is the policy of the Federal Reserve that bank holding companies should pay cash dividends on common stock only out of income available from the immediately preceding year and only if prospective earnings retention is consistent with the organization s expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividend that undermines the bank holding company s ability to serve as a source of strength to its banking subsidiary. A bank holding company may not pay dividends when it is insolvent.

The Company resumed paying quarterly cash dividends to common shareholders in 2013. For more information regarding quarterly cash dividends, see Part II, Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities below.

SARBANES-OXLEY ACT OF 2002

The Sarbanes-Oxley Act of 2002 is not a banking law, but contains important requirements for public companies in the area of financial disclosure and corporate governance. In accordance with Section 302(a) of the Sarbanes-Oxley Act, written certifications by the Company s principal executive officer and principal financial officer are required. These certifications attest, among other things, that the Company s quarterly and annual reports filed with the SEC do not contain any untrue statement of a material fact. In response to the Sarbanes-Oxley Act of 2002, the Company adopted a series of procedures to further strengthen its corporate governance practices. The Company also requires signed certifications from managers who are responsible for internal controls throughout the Company as to the integrity of the information they prepare. These procedures supplement the Company s Code of Conduct Policy and other procedures that were previously in place. In 2005, the Company implemented and has since maintained a program designed to comply with Section 404 of the Sarbanes-Oxley Act. This program included the identification of key processes and accounts, documentation of the design of control effectiveness over process and entity level controls, and testing of the effectiveness of key controls.

PRIVACY PROVISIONS

Federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about customers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to non-affiliated third parties. The privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. The Company believes it is in compliance with the various provisions.

USA PATRIOT ACT

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The United States Treasury Department has issued and, in some cases, proposed a number of regulations that apply various requirements of the USA Patriot Act to financial institutions. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the Company.

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

On July 21, 2010, the President signed into law the Dodd-Frank Act. This law significantly changed the previous bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies.

A provision of the Dodd-Frank Act eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. The Dodd-Frank Act also broadened the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor.

Bank and thrift holding companies with assets of less than $15 billion as of December 31, 2009, such as the Company, are permitted to include trust preferred securities that were issued before May 19, 2010, such as the Company s 8.45% Trust Preferred Securities, as Tier 1 capital; however, trust preferred securities issued by a bank or thrift holding company (other than those with assets of less than $500 million) after May 19, 2010, will no longer count as Tier 1 capital. Such trust preferred securities still will be entitled to be treated as Tier 2 capital.

The Dodd-Frank Act created the Consumer Financial Protection Bureau (the CFPB), a new independent regulatory agency with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets such as the Company will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations and gives state attorney generals the ability to enforce federal consumer protection laws.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. These filings are available to the public on the Internet at the SEC s website at *http://www.sec.gov*. You may also read and copy any document we file with the SEC at the SEC s public reference room, located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our Internet address is *http://www.ameriserv.com*. We make available free of charge on *http://www. ameriserv.com* our annual, quarterly and current reports, and amendments to those reports, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC.

11

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company has no unresolved staff comments from the SEC for the reporting periods presented.

ITEM 2. PROPERTIES

The principal offices of the Company and the Bank occupy the five-story AmeriServ Financial building at the corner of Main and Franklin Streets in Johnstown plus twelve floors of the building adjacent thereto. The Company occupies the main office and its subsidiary entities have 13 other locations which are owned. Seven additional locations are leased with terms expiring from January 1, 2017 to July 31, 2030.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to a number of asserted and unasserted potential legal claims encountered in the normal course of business. In the opinion of both management and legal counsel, there is no present basis to conclude that the resolution of these claims will have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

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

COMMON STOCK

As of January 31, 2017, the Company had 3,327 shareholders of record for its common stock. The Company s common stock is traded on the NASDAQ Global Market System under the symbol ASRV. The following table sets forth the actual high and low closing prices and the cash dividends declared per share for the periods indicated:

	PRICES		CASH
	HIGH	LOW	DIVIDENDS DECLARED
Year ended December 31, 2016:			
First Quarter	**$ 3.36**	**$ 2.96**	**$ 0.01**
Second Quarter	**3.27**	**2.95**	**0.01**
Third Quarter	**3.34**	**3.02**	**0.015**
Fourth Quarter	**3.80**	**3.15**	**0.015**
Year ended December 31, 2015			
First Quarter	$ 3.13	$ 2.88	$ 0.01
Second Quarter	3.44	3.00	0.01
Third Quarter	3.41	3.20	0.01
Fourth Quarter	3.39	3.16	0.01

The declaration of cash dividends on the Company s common stock is at the discretion of the Board, and any decision to declare a dividend is based on a number of factors, including, but not limited to, earnings, prospects, financial condition, regulatory capital levels, applicable covenants under any credit agreements and other contractual restrictions, Pennsylvania law, federal and Pennsylvania bank regulatory law, and other factors deemed relevant. Additionally, the Company s announced a new common stock repurchase program which calls for the buyback of up to 5%, or approximately 945,000 shares, of its common stock during the next 18 months.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA

	AT OR FOR THE YEAR ENDED DECEMBER 31,				
	2016	2015	2014	2013	2012
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)				
SUMMARY OF INCOME STATEMENT DATA:					
Total interest income	**$41,869**	$41,881	$40,441	$39,343	$39,917
Total interest expense	**7,735**	6,520	6,397	6,482	7,714
Net interest income	**34,134**	35,361	34,044	32,861	32,203
Provision (credit) for loan losses	**3,950**	1,250	375	(1,100)	(775)
Net interest income after provision (credit) for loan losses	**30,184**	34,111	33,669	33,961	32,978
Total non-interest income	**14,638**	15,267	14,323	15,744	14,943
Total non-interest expense	**41,615**	41,038	43,371	42,223	40,641
Income before income taxes	**3,207**	8,340	4,621	7,482	7,280
Provision for income taxes	**897**	2,343	1,598	2,289	2,241
Net income	**$2,310**	$5,997	$3,023	$5,193	$5,039
Net income available to common shareholders	**$2,295**	$5,787	$2,813	$4,984	$4,211
PER COMMON SHARE DATA:					
Basic earnings per share	**$0.12**	$0.31	$0.15	$0.26	$0.21
Diluted earnings per share	**0.12**	0.31	0.15	0.26	0.21
Cash dividends declared	**0.05**	0.04	0.04	0.03	0.00
Book value at period end	**5.05**	5.19	4.97	4.91	4.67
BALANCE SHEET AND OTHER DATA:					
Total assets	**$1,153,780**	$1,148,497	$1,089,263	$1,056,036	$1,000,991
Loans and loans held for sale, net of unearned income	**886,858**	883,987	832,131	786,748	731,741
Allowance for loan losses	**9,932**	9,921	9,623	10,104	12,571
Investment securities available for sale	**127,077**	119,467	127,110	141,978	151,538
Investment securities held to maturity	**30,665**	21,419	19,840	18,187	13,723
Deposits	**967,786**	903,294	869,881	854,522	835,734
Total borrowed funds	**78,645**	117,058	93,965	79,640	41,745
Stockholders equity	**95,395**	118,973	114,407	113,307	110,468
Full-time equivalent employees	**305**	318	314	352	350
SELECTED FINANCIAL RATIOS:					
Return on average assets	**0.20** %	0.54 %	0.29 %	0.51 %	0.51 %
Return on average total equity	**2.30**	5.10	2.61	4.69	4.51
Loans and loans held for sale, net of unearned income, as a percent of deposits, at period end	**91.64**	97.86	95.66	92.07	87.56
Ratio of average total equity to average assets	**8.79**	10.65	10.92	10.86	11.36
Common stock cash dividends as a percent of net income available to common shareholders	**41.18**	13.03	26.73	11.36	
Interest rate spread	**3.08**	3.33	3.36	3.39	3.43
Net interest margin	**3.26**	3.49	3.52	3.56	3.65

Allowance for loan losses as a percentage of loans, net of unearned income, at period end	**1.12**	1.13	1.16	1.29	1.74
Non-performing assets as a percentage of loans and other real estate owned, at period end	**0.18**	0.71	0.35	0.52	1.00
Net charge-offs as a percentage of average loans	**0.44**	0.11	0.11	0.18	0.19
Ratio of earnings to fixed charges and preferred dividends:[1]					
Excluding interest on deposits	**2.26X**	4.68X	3.30X	5.13X	3.80X
Including interest on deposits	**1.40**	2.19	1.67	2.07	1.80
Cumulative one year interest rate sensitivity gap ratio, at period end	**1.44**	1.23	1.13	1.09	1.30

(1) The ratio of earnings to fixed charges and preferred dividends is computed by dividing the sum of income before taxes, fixed charges, and preferred dividends by the sum of fixed charges and preferred dividends. Fixed charges represent interest expense and are shown as both excluding and including interest on deposits.

14

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

The following discussion and analysis of financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements of the Company including the related notes thereto, included elsewhere herein.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014

2016 SUMMARY OVERVIEW:

AmeriServ closed 2016 with its third consecutive profitable quarter while it continued to recover from the net loss of the first quarter. The Company reported net income for the fourth quarter of $1,150,000 or $0.06 earnings per share. When consolidated with the previous quarters of 2016, net income for the year was $2,310,000 or $0.12 per share. The fourth quarter was $85,000 above the third quarter of 2016, but $224,000 below the fourth quarter of 2015. These results reflect the continuing impact of the net loss recorded in the first quarter. We continue to take full responsibility for putting the expenses related to the Trust Company trading error, and our only loan to the energy industry, behind us immediately. AmeriServ s quick return to profitability tells us that these were self-contained events and therefore do not indicate any continuing risk to the Company.

We believe the marketplace agrees, net loans have begun to increase again and deposits closed the quarter at an all-time high and very near the $1 billion mark. However, even more encouraging was that the total revenue of the Trust Company was at an all-time high in the fourth quarter of 2016. It is also important to note that as 2016 ended, the level of non-performing assets was at the lowest level ever reported. We believe that our present balance sheet is well positioned for the higher level of interest rates which have developed since the November election. It is a fact that it was necessary to take corrective actions and such actions take time and money. Therefore, the fourth quarter level of operating expenses were $339,000 higher than the same period in 2015. As those expenses disappear, our focus on increasing revenues should show a very positive trend line.

Looking to that speedy return to profitability, AmeriServ requested and received from the regulators their non-objection to implement a common stock repurchase program. This program could reduce the outstanding shares by almost one million, thus increasing the value of any continuing shares. This action following so soon after the cash dividend increase, announced in August, indicates our commitment to improving the return to our shareholders.

You may also recall that the Pennsylvania State Education Association has named AmeriServ as its preferred residential mortgage and consumer lender. Their 190,000 members can accomplish an entire residential mortgage transaction through a dedicated and centralized application center at AmeriServ. Since this program is functioning so well with Pennsylvania s schoolteachers, we are approaching other similar associations in the Keystone State. This effort combines our new proven procedures with our traditional personal service.

As you know this management team began its tour of duty in March of 2015. In the fourth quarter of 2016 they completed a three-year Strategic Plan to take AmeriServ to 2020. We believe that AmeriServ is an exceptionally clean franchise, a community bank with assets approaching one and one-quarter billion dollars, with a freestanding trust and wealth management subsidiary. The goal of this Board and this Management team is to build this franchise in both profitability and asset size. This new Strategic Plan is the road map that will be used in this effort. We intend to maintain our tradition of personal service while incorporating the best in new technology. The University Heights and State College locations are being updated for a better customer experience. These community bank offices will be equipped to accommodate the growing cohort of millennials, while maintaining the time-tested personal service our senior citizens expect and value. It is indeed an exciting time to be a community bank whose mission is to provide

Banking for Life .

A comment about the national and regional scene is warranted. The contentious national election is now behind us, but the road ahead is unclear. The Federal Reserve policies in recent years have not created a positive economic environment for community banks. The interest rate policies have lessened the support costs of the enormous national debt, but have created tremendous burdens for pensions, for savers and for community banks. It is good that the existing Federal Reserve policies are beginning to be discussed, but thus far, there has been little tangible action to alleviate these difficult conditions. We decided some time ago on our preferred course of action. It is simply to maintain a conservative balance sheet with strong capital and deep liquidity. Also, we will strive for better than industry measures in our loan and securities portfolios. We think these guidelines, and the counter cyclical nature of our Trust Company, adds up to a strong Company in a struggling economy. There will be no bet the bank strategies at AmeriServ and we will remain poised for signs of an upturn in 2017.

PERFORMANCE OVERVIEW... The following table summarizes some of the Company s key profitability performance indicators for each of the past three years.

	YEAR ENDED DECEMBER 31,		
	2016	2015	2014
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)		
Net income	**$ 2,310**	$ 5,997	$ 3,023
Net income available to common shareholders	**2,295**	5,787	2,813
Diluted earnings per share	**0.12**	0.31	0.15
Return on average assets	**0.20** %	0.54 %	0.29 %
Return on average equity	**2.30**	5.10	2.61

The Company reported net income available to common shareholders of $2.3 million, or $0.12 per diluted common share, for 2016. This represented a 61% decrease in earnings per share from 2015 where net income available to common shareholders totaled $5.8 million, or $0.31 per diluted share. This reduction reflects, 1.) a substantially higher than typical provision for loan losses and net loan charge offs that were recorded in the first quarter of 2016 to resolve the Company s only meaningful direct loan exposure to the energy industry, 2.) a reduced level of net interest income that results from net interest margin compression, which is prevalent in the banking industry, as well as a lower level of loan prepayment fee income and additional interest expense related to the issuance of subordinated debt, and 3.) operating expenses increasing by $577,000, or 1.4% due to non-recurring costs for legal and accounting services that were necessary to address a trust operations trading error.

The Company reported net income available to common shareholders of $5.8 million, or $0.31 per diluted common share, for 2015. This represented a 107% increase in earnings per share from 2014 where net income available to common shareholders totalled $2.8 million, or $0.15 per diluted share. Factors causing this increase in earnings were solid loan and deposit growth in our community banking business which contributed to an increase of $1.3 million, or 3.9%, in net interest income while increasing revenue from our trust and wealth management business contributed to 6.6% growth in non-interest income in 2015. Additionally, operating expenses declined by $2.3 million, or 5.4%, as we improved the ongoing efficiency of the Company by successfully executing several profitability improvement initiatives.

The Company reported net income available to common shareholders of $2.8 million, or $0.15 per diluted common share, for 2014. This represented a 42.3% decrease in earnings per share from 2013 where net income available to common shareholders totalled $5.0 million, or $0.26 per diluted share. Factors contributing to this reduction in earnings were a $1.5 million unfavorable swing in the provision for loan losses, a $1.4 million reduction in non-interest revenue, and a $1.1 million increase in non-interest expense. The non-interest expense increase included a $669,000 goodwill impairment charge and a $376,000 fourth quarter pension charge related to 25 employees who elected to participate in an early retirement incentive program. These negative items were partially offset by a $1.2 million increase in net interest income due to continued growth of our loan portfolio while maintaining excellent asset quality.

16

NET INTEREST INCOME AND MARGIN... The Company s net interest income represents the amount by which interest income on earning assets exceeds interest paid on interest bearing liabilities. Net interest income is a primary source of the Company s earnings; it is affected by interest rate fluctuations as well as changes in the amount and mix of earning assets and interest bearing liabilities. The following table summarizes the Company s net interest income performance for each of the past three years:

	YEAR ENDED DECEMBER 31,		
	2016	2015	2014
	(IN THOUSANDS, EXCEPT RATIOS)		
Interest income	**$41,869**	$41,881	$40,441
Interest expense	**7,735**	6,520	6,397
Net interest income	**34,134**	35,361	34,044
Net interest margin	**3.26 %**	3.49 %	3.52 %

2016 NET INTEREST PERFORMANCE OVERVIEW... The Company s net interest income for the full year of 2016 decreased by $1,227,000, or 3.5%, when compared to the full year of 2015. The Company s net interest margin of 3.26% for the full year of 2016 was 23 basis points lower than the net interest margin of 3.49% for the full year of 2015. The 2016 reduction in net interest income has been significantly impacted by the following three factors: 1.) net interest margin compression that results from the prolonged low interest rate environment that exists in the economy and is pressuring community bank net interest margins, 2.) additional interest expense that was associated with the Company s late fourth quarter 2015 issuance of subordinated debt, and 3.) a significantly lower level of loan prepayment fee income, which decreased by approximately $300,000 for full year of 2016. These factors more than offset the Company s continued growth in earning assets and control of its cost of funds through disciplined deposit pricing. Specifically, the earning asset growth occurred in the loan portfolio as total loans averaged $888 million for the full year of 2016, which is $31 million, or 3.6%, higher than the $857 million average for the full year of 2015. This loan growth reflects the successful results of the Company s business development efforts, with an emphasis on generating commercial loans and owner occupied commercial real estate loans particularly through its loan production offices. However, loan interest income is $134,000, or 0.4%, lower for the full year of 2016 when compared to the full year of 2015 due primarily to the previously mentioned decline in loan prepayment fees between years. Interest income on short-term investments and investment securities grew by $122,000 or 3.1% for the full year as the Company benefited from a higher balance of investment securities in 2016. Overall, total interest income decreased by $12,000, or 0.03%, in 2016.

The Company experienced significant growth in deposits between years which is a reflection of the loyalty and stability 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 $956 million for the full year of 2016 which is $63 million, or 7.0%, higher than the $893 million average for the full year of 2015. The Company is also pleased that a meaningful portion of this deposit growth occurred in non-interest bearing demand deposit accounts. Deposit interest expense for the full year of 2016 increased by $648,000, or 13.6%, due to the higher balance of deposits along with certain money market accounts repricing upward after Federal Reserve fed funds interest rate increases. As a result of this strong deposit growth, the Company s loan to deposit ratio ended the year at 91.6% which indicates that the Company has ample room to further grow its loan portfolio in 2017.

Total interest expense increased for the full year of 2016 by $1,215,000, or 18.6%, as compared to 2015 due to higher levels of both borrowings and deposit interest expense. The Company experienced a $567,000 increase in the interest cost for borrowings in 2016, with $515,000 of this increase attributable to the Company s subordinated debt issuance which occurred late in December of 2015. Specifically, the Company issued $7.65 million of subordinated debt which has a 6.50% fixed interest rate. The proceeds from the subordinated debt issuance, along with other cash on hand, was used to redeem all $21 million of our outstanding SBLF preferred stock on January 27, 2016. The remainder of the increase in borrowings interest expense was due to a greater utilization of FHLB term advances to extend borrowings for interest rate risk management purposes.

17

COMPONENT CHANGES IN NET INTEREST INCOME: 2016 VERSUS 2015... Regarding the separate components of net interest income, the Company s total interest income in 2016 decreased by $12,000 when compared to 2015. This decrease was due to 1.) net interest margin compression that results from the prolonged low interest rate environment that exists in the economy and is pressuring community bank net interest margins, 2.) additional interest expense that was associated with the Company s late fourth quarter 2015 issuance of subordinated debt, and 3.) a significantly lower level of loan prepayment fee income, which decreased by approximately $300,000 for full year of 2016. This is evidenced by a $36.9 million increase in average earning assets due to increases in both average loans and average securities, which was more than offset by a 15 basis point decline in the earning asset yield from 4.14% to 3.99%. Within the earning asset base, total loan interest income decreased by $134,000 as the yield on the total loan portfolio decreased by 17 basis points from 4.44% to 4.27%. The greater level of total average loans in 2016 was more than offset by the impact of new loans having yields that are below the rate on the maturing instruments that they are replacing. Also negatively impacting loan interest income in 2016 was the reduced level of loan prepayment fee income. Investment securities interest revenue increased by $47,000 in 2016 due to a $2.3 million increase in the average investment securities portfolio. However, the yield on total investment securities decreased by one basis points from 2.67% to 2.66% due to net interest margin compression as well as an increase in premium amortization on mortgage backed securities, which resulted from an increase in mortgage prepayment speeds in 2016.

The Company s total interest expense for 2016 increased by $1.2 million, or 18.6%, when compared to 2015. Total interest bearing deposits increased by $51.2 million or 7.1% due to management s ability to acquire new core deposit funding from outside our traditional market areas as well as our ongoing efforts to offer new loan customers deposit products. The growth is also a reflection of the loyalty and stability of our core deposit base. Total interest bearing deposit interest expense increased by $648,000 in 2016 due to the higher volume of interest bearing deposits and an increase of four basis points in the cost of interest bearing deposits to 0.70%. Management continues to carefully price interest rates paid on all deposit categories. The Company experienced a $567,000 increase in the interest cost for borrowings in 2016, with $515,000 of this increase attributable to the Company s subordinated debt issuance which occurred late in December of 2015. The increase in borrowings interest expense is also reflective of a greater usage total average FHLB term advances. The Company has utilized term advances from the FHLB, with maturities ranging between three and five years, to help fund its earning asset growth and manage interest rate risk. The average balance of FHLB term advances has increased by $2.6 million while the average cost of these advances has increased by 11 basis point to 1.32%. Total FHLB borrowings, including overnight borrowed funds, averaged $57.8 million or 5.1% of total assets during 2016. Overall, total interest bearing funding costs increased by 10 basis points to 0.91%.

Overall, the Company expects that it will need to continue to grow the earning assets to achieve net interest income growth in 2017 as net interest margin compression is expected to slow or bottom. Solid commercial pipelines suggest that the Company should be able to grow the loan portfolio in 2017 although we expect the pricing pressures on new commercial loans to continue to be intense.

2015 NET INTEREST PERFORMANCE OVERVIEW... The Company s net interest income increased by $1.3 million, or 3.9%, for the full year of 2015 when compared to the full year 2014 as net interest margin compression was more than fully mitigated by earning asset growth, a greater level of prepayment fees on early loan payoffs and an increased dividend from the FHLB of Pittsburgh. The Company s net interest margin of 3.49% for the full year 2015 was three basis points lower than the net interest margin of 3.52% for the full year 2014. The earning asset growth occurred in the loan portfolio as total loans averaged $857 million for the full year of 2015 which is $52 million, or 6.5%, higher than the $805 million average for the full year of 2014. This loan growth reflects the successful results of the Company s sales calling efforts, with an emphasis on generating commercial loans and owner occupied commercial real estate loans particularly through its loan production offices in the stronger growth markets of Pittsburgh and Altoona in Pennsylvania, Hagerstown, Maryland. Overall, total interest income increased by $1.4 million, or 3.6%, for the full year 2015.

18

Total interest expense was well controlled in 2015 as it increased by $123,000, or 1.9%, for the full year of 2015 due to tight control of our cost of funds through disciplined deposit pricing. Total deposit interest expense decreased by $137,000, or 2.8%, in 2015 when compared to 2014. Even with this reduction in deposit costs, the Company continues to have a strong loyal core deposit base and success in cross-selling new loan customers into deposit products. Specifically, total deposits averaged $893 million for full year of 2015 which is $21 million, or 2.4%, higher than the $872 million average in 2014. The Company is pleased that a meaningful portion of this deposit growth occurred in non-interest bearing demand deposit accounts. This decreased interest expense for deposits has been more than offset by a $260,000 increase in the interest cost for borrowings as the Company has utilized more FHLB term advances to extend borrowings and provide protection against rising interest rates.

COMPONENT CHANGES IN NET INTEREST INCOME: 2015 VERSUS 2014... Regarding the separate components of net interest income, the Company s total interest income in 2015 increased by $1.4 million, or 3.6%, when compared to 2014. This increase was due to a $44.4 million increase in average earning assets due to an increase in average loans, partially offset by a four basis point decline in the earning asset yield from 4.18% to 4.14%. Within the earning asset base, the yield on the total loan portfolio decreased by eight basis points from 4.52% to 4.44% as a greater level of prepayment fees on early loan payoffs was more than offset by the impact from new loans having yields that are below the rate on the maturing instruments that they are replacing. However, the yield on total investment securities increased by seven basis points from 2.60% to 2.67% due to an increased dividend from the FHLB of Pittsburgh and a reduction in premium amortization on mortgage backed securities which resulted from a slowdown in mortgage prepayment speeds in 2015. Investment securities interest revenue declined by $223,000 in 2015 due to a $12 million decrease in the average investment securities portfolio as the Company has utilized cash flow from securities to help fund the previously mentioned loan growth**.**

The Company s total interest expense for 2015 increased by $123,000, or 1.9%, when compared to 2014. This increase in interest expense was due to an increased level of average FHLB borrowed funds which more than offset a lower cost of funds as the cost of interest bearing liabilities declined by one basis point to 0.81%. Management s strategy to carefully price interest rates paid on all deposit categories has not had a negative impact on deposit growth and reflects the loyalty of the bank s core deposit base. The overall cost of interest bearing deposits decreased by two basis points to 0.66% in spite of a $5.4 million increase in the total average volume. The Company utilized term advances from the FHLB, with maturities ranging between three and five years, to help fund its earning asset growth and manage interest rate risk. The average balance of FHLB term advances increased by $13 million while the average cost of these advances increased by 20 basis points to 1.21%. Overall, total FHLB borrowings averaged $71 million or 6.4% of total assets during 2015.

The table that follows provides an analysis of net interest income on a tax-equivalent basis 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) 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) net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables loan balances 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. Regulatory stock is included within available for sale investment securities for this analysis. Additionally, a tax rate of approximately 34% is used to compute tax-equivalent yields.

20

Net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The table below sets forth an analysis of volume and rate changes in net interest income on a tax-equivalent basis. For purposes of this table, changes in interest income and interest expense are allocated to volume and rate categories based upon the respective percentage changes in average balances and average rates. Changes in net interest income that could not be specifically identified as either a rate or volume change were allocated proportionately to changes in volume and changes in rate.

	2016 vs. 2015 INCREASE (DECREASE) DUE TO CHANGE IN:			2015 vs. 2014 INCREASE (DECREASE) DUE TO CHANGE IN:		
	AVERAGE VOLUME	RATE	TOTAL	AVERAGE VOLUME	RATE	TOTAL
	(IN THOUSANDS)					
INTEREST EARNED ON:						
Loans, net of unearned income	**$247**	**$(380)**	**$(133)**	$1,398	$260	$1,658
Deposits with banks	**(1)**	**6**	**5**	16	(13)	3
Short-term investments in money market funds	**7**	**63**	**70**	42	(35)	7
Investment securities:						
Available for sale	**(78)**	**(40)**	**(118)**	(276)	(2)	(278)
Held to maturity	**153**	**12**	**165**	53	2	55
Total investment securities	**75**	**(28)**	**47**	(223)		(223)
Total interest income	**328**	**(339)**	**(11)**	1,233	212	1,445
INTEREST PAID ON:						
Interest bearing demand deposits	**27**	**91**	**118**	9	(1)	8
Savings deposits	**3**		**3**	17	(5)	12
Money market	**136**	**245**	**381**	70	(14)	56
Other time deposits	**34**	**112**	**146**	(226)	13	(213)
Federal funds purchased and other short-term borrowings	**(64)**	**30**	**(34)**	28	3	31
Advances from Federal Home Loan Bank	**33**	**53**	**86**	200	25	225
Subordinated debt	**515**		**515**	4		4
Total interest expense	**684**	**531**	**1,215**	102	21	123
Change in net interest income	**$(356)**	**$(870)**	**$(1,226)**	$1,131	$191	$1,322

21

LOAN QUALITY... The Company s written lending policies require underwriting, loan documentation, and credit analysis standards to be met prior to funding any loan. After the loan has been approved and funded, continued periodic credit review is required. The Company s policy is to individually review, as circumstances warrant, each of its commercial and commercial mortgage loans to determine if a loan is impaired. 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. The Company has also identified three pools of small dollar value homogeneous loans which are evaluated collectively for impairment. These separate pools are for small business relationships with aggregate balances of $250,000 or less, residential mortgage loans and consumer loans. Individual loans within these pools are reviewed and removed from the pool if factors such as significant delinquency in payments of 90 days or more, bankruptcy, or other negative economic concerns indicate impairment. The following table sets forth information concerning the Company s loan delinquency and other non-performing assets.

	AT DECEMBER 31,		
	2016	2015	2014
	(IN THOUSANDS, EXCEPT PERCENTAGES)		
Total accruing loans past due 30 to 89 days	**$3,278**	$4,396	$2,643
Total non-accrual loans	**1,603**	6,066	2,195
Total non-performing assets including TDRs(1)	**1,624**	6,297	2,917
Loan delinquency as a percentage of total loans, net of unearned income	**0.37 %**	0.50 %	0.32 %
Non-accrual loans as a percentage of total loans, net of unearned income	**0.18**	0.69	0.27
Non-performing assets as a percentage of total loans, net of unearned income, and other real estate owned	**0.18**	0.71	0.35
Non-performing assets as a percentage of total assets	**0.14**	0.55	0.27
Total classified loans (loans rated substandard or doubtful)	**$6,039**	$8,566	$11,229

(1) 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 troubled debt restructuring and (iv) other real estate owned.

The Company continues to maintain excellent asset quality. Non-performing assets declined by $4.7 million since the prior year-end with the early in the year resolution of the Company s largest energy sector loan and now total $1.6 million, one of the lowest levels reported by the Company. The continued successful ongoing problem credit resolution efforts of the Company is demonstrated in the table above as levels of non-accrual loans, non-performing assets, classified loans and low loan delinquency levels are well below 1% of total loans. We continue to closely monitor the loan portfolio given the uneven recovery in the economy and the number of relatively large-sized commercial and CRE loans within the portfolio. As of December 31, 2016, the 25 largest credits represented 26.8% of total loans outstanding.

ALLOWANCE AND PROVISION FOR LOAN LOSSES... As described in more detail in the Critical Accounting Policies and Estimates section of this MD&A, 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 following table sets forth changes in the ALL and certain ratios for the periods ended.

	YEAR ENDED DECEMBER 31,				
	2016	2015	2014	2013	2012
	(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)				
Balance at beginning of year	**$9,921**	$9,623	$10,104	$12,571	$14,623
Charge-offs:					
Commercial	**(3,648)**	(170)	(172)	(50)	(345)
Commercial loans secured by real estate	**(13)**	(250)	(708)	(1,777)	(796)
Real estate-mortgage	**(291)**	(753)	(322)	(139)	(420)
Consumer	**(344)**	(188)	(121)	(154)	(200)
Total charge-offs	**(4,296)**	(1,361)	(1,323)	(2,120)	(1,761)
Recoveries:					
Commercial	**140**	101	141	80	138
Commercial loans secured by real estate	**40**	111	231	481	245
Real estate-mortgage	**147**	171	71	122	54
Consumer	**30**	26	24	70	47
Total recoveries	**357**	409	467	753	484
Net charge-offs	**(3,939)**	(952)	(856)	(1,367)	(1,277)
Provision (credit) for loan losses	**3,950**	1,250	375	(1,100)	(775)
Balance at end of year	**$9,932**	$9,921	$9,623	$10,104	$12,571
Loans and loans held for sale, net of unearned income:					
Average for the year	**$887,679**	$857,015	$804,721	$746,490	$688,736
At December 31	**886,858**	880,984	827,080	786,748	731,741
As a percent of average loans:					
Net charge-offs	**0.44** %	0.11 %	0.11 %	0.18 %	0.19 %
Provision (credit) for loan losses	**0.44**	0.15	0.05	(0.15)	(0.11)
Allowance as a percent of each of the following:					
Total loans, net of unearned income	**1.12**	1.13	1.16	1.29	1.74
Total accruing delinquent loans (past due 30 to 89 days)	**302.99**	225.68	364.09	309.56	363.74
Total non-accrual loans	**619.59**	163.55	438.21	351.93	216.22
Total non-performing assets	**611.58**	157.55	329.89	245.90	174.02
Allowance as a multiple of net charge-offs	**2.52x**	10.42x	11.24x	7.39x	9.84x

For 2016, the Company recorded a $3,950,000 provision for loan losses compared to a $1,250,000 provision for loan losses for the full year of 2015 or an increase of $2.7 million between years. A substantially higher than typical provision and net loan charge-offs were recorded in the first quarter of 2016 and were 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. The bankruptcy changed from Chapter 11 (reorganization) to Chapter 7 (liquidation),

23

and 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. As a result of this action, the Company also experienced heightened net loan charge-offs of $3.9 million, or 0.44%, of total loans in 2016, compared to net loan charge-offs of $952,000, or 0.11% of total loans, in 2015. Overall, the Company continued to maintain excellent asset quality. At December 31, 2016, non-performing assets totaled $1.6 million, or only 0.18% of total loans, which is down by $4.7 million from the prior year-end and is one of the lowest levels ever reported by the Company. In summary, the allowance for loan losses provided a strong 612% coverage of non-performing loans, and 1.12% of total loans, at December 31, 2016, compared to 158% coverage of non-performing loans, and 1.13% of total loans, at December 31, 2015. The Company presently expects that it will have a more typical loan loss provision in 2017. The expected lower provision will be necessary to cover loan charge-offs and support the anticipated growth in the loan portfolio.

For 2015, the Company recorded a $1,250,000 provision for loan losses which represented an increase of $875,000 when compared to the 2014 full year provision of $375,000. The higher provision that was needed this year was largely due to the transfer into non-accrual status of a $4.1 million loan to a customer in the fracking industry that filed for bankruptcy protection in the fourth quarter. The higher provision recorded in 2015 was also needed to support the continuing growth of the loan portfolio and cover net loan charge-offs. For the full year, there were net loan charge-offs of $952,000, or 0.11% of total loans, in 2015 compared to net loan charge-offs of $856,000, or 0.11% of total loans, in 2014. Overall, even with the fourth quarter increase in non-performing assets, the Company continued to maintain strong asset quality in 2015. At December 31, 2015, non-performing assets totaled $6.3 million, or 0.71% of total loans. When determining the provision for loan losses, the Company considers a number of factors, some of which include periodic credit reviews, non-performing assets, loan delinquency and charge-off trends, concentrations of credit, loan volume trends and broader local and national economic trends. In summary, the allowance for loan losses provided 158% coverage of non-performing loans, and 1.13% of total loans, at December 31, 2015, compared to 400% coverage of non-performing loans, and 1.16% of total loans, at December 31, 2014.

The following schedule sets forth the allocation of the ALL among various loan categories. This allocation is determined by using the consistent quarterly procedural discipline that was previously discussed. The entire ALL is available to absorb future loan losses in any loan category.

Even though residential real estate-mortgage loans comprise 28.1% of the Company s total loan portfolio, only $1.2 million or 11.8% of the total ALL is allocated against this loan category. The residential real estate-mortgage loan allocation is based upon the Company s three-year historical average of actual loan charge-offs experienced in that category and other qualitative factors. The disproportionately higher allocations for commercial loans and commercial loans secured by real estate reflect the increased credit risk associated with this type of lending, the Company s historical loss experience in these categories, and other qualitative factors. The large decline in the part of the allowance allocated to commercial loans secured by real estate reflects the continued asset quality improvements in this sector.

Based on the Company s ALL methodology and the related assessment of the inherent risk factors contained within the Company s loan portfolio, we believe that the ALL is adequate at December 31, 2016 to cover losses within the Company s loan portfolio.

NON-INTEREST INCOME... Non-interest income for 2016 totalled $14.6 million, a decrease of $629,000, or 4.1%, from 2015. Factors contributing to this lower level of non-interest income in 2016 included:

a $942,000 decrease in Bank Owned Life Insurance (BOLI) revenue after the Company received four death claims in 2015 and there were no such claims in 2016.
a $201,000, or 8.6%, increase in other income as the Company benefited from additional revenue resulting from a more aggressive business development strategy within its Financial Services Division.
a $106,000 increase in revenue from investment security sale transactions as the Company recognized a higher level of gains on the sale of rapidly prepaying, low balance mortgage backed securities.
a $93,000, or 8.0%, increase in mortgage loan sale gains and mortgage related fees due to increased refinance activity and a comparable level of new mortgage loan originations when compared to 2015.
a $76,000, or 4.3%, decrease in service charges on deposit accounts due to fewer overdraft charges and account analysis fees as customers have generally maintained higher balances in their checking accounts in 2016.

Non-interest income for 2015 totalled $15.3 million, an increase of $944,000, or 6.6%, from 2014. Factors contributing to this higher level of non-interest income in 2015 included:

an $869,000 increase in BOLI revenue for the full year due to the receipt of four death claims in 2015.
a $579,000, or 7.5%, increase in trust and investment advisory fees as a result of increased assets under management which reflects successful new business development activities as well as effective management of existing customer accounts in this volatile market environment. Trust assets under administration totalled $2.0 billion as of December 31, 2015.
a $207,000, or 10.6%, decrease in service charges on deposit accounts due to fewer overdraft charges and account analysis fees as customers have generally maintained higher balances in their checking accounts in 2015.
mortgage related fees dropped by $199,000 for the full year due to less mortgage refinance activity in 2015.
there was a decrease of $106,000 in revenue from investment security sale transactions as the Company recognized a lower level of gains on the sale of securities with low balances in 2015 compared to gains realized on the sale of rapidly pre-paying mortgage backed securities in 2014.

NON-INTEREST EXPENSE... Non-interest expense for 2016 totalled $41.6 million, which represents a $577,000, or 1.4%, increase from 2015. Factors contributing to the higher non-interest expense in 2016 included:

other expenses were up $544,000, or 11.5% and professional fees increased by $277,000, or 5.5% for the year as a result of non-recurring costs for legal and accounting services that were necessary to address a trust operations trading error.
occupancy and equipment related expenses are lower by $244,000, or 5.2%, as a result of management s continued efforts to improve efficiencies and control costs.

25

Non-interest expense for 2015 totalled $41.0 million, which represents a $2.3 million, or 5.4%, decrease from 2014. Factors contributing to the lower non-interest expense in 2015 included:

salaries and employee benefits were down by $918,000, or 3.7%, for the full year of 2015, due to 21 fewer average full time equivalent employees as certain employees who elected to participate in an early retirement program in late 2014 were not replaced in order to achieve efficiencies identified as part of a profitability improvement program. As part of this early retirement program, the Company recognized a $400,000 pension charge in the fourth quarter of 2014.
the recognition of a $669,000 goodwill impairment charge related to its investment advisory subsidiary in the third quarter of 2014. There was no such charge in 2015.
professional fees decreased by $406,000, or 7.5% for the year as a result of lower legal fees, director s fees and consulting costs in 2015.

INCOME TAX EXPENSE... The Company recorded income tax expense of $897,000, or an effective tax rate of 28.0%, in 2016 compared to the income tax expense of $2.3 million, or an effective tax rate of 28.1%, for 2015. The lower income tax expense and effective tax rate are due to the first quarter 2016 loss recognized by the Company. The Company s deferred tax asset was $10.7 million at December 31, 2016 and relates primarily to AMT carryforwards and the ALL.

SEGMENT RESULTS... Retail banking s net income contribution was $3.0 million in 2016 and was comparable to the $3.0 million contribution in 2015 and $2.2 million in 2014. Net interest income was positively impacted by an increased funding benefit from the significant growth in deposits provided by this segment, which more than fully mitigated the ongoing net interest margin pressure from the continued low interest rate environment. The Retail segment also benefitted from increased efficiencies resulting in a lower overall level of non-interest expense. These positive items more than offset a lower level of non-interest income primarily resulting from decreased revenue from BOLI and reduced deposit service charges.

The commercial banking segment reported net income of $3.3 million in 2016 compared to net income of $5.4 million in 2015 and $4.2 million in 2014. The net income contribution for 2016 decreased as a result of the increased provision for loan losses due to the first quarter charge-off of the energy sector credit. Overhead expense was higher primarily due to increased incentive compensation and non-interest income was negatively impacted by the lower level of BOLI income. These unfavorable items more than offset strong growth in the commercial and commercial real estate loan portfolios which resulted in a higher level of net interest income.

The trust segment s net income contribution was $1.1 million in 2016 compared to $1.3 million in 2015 and $564,000 in 2014. The reduced net income contribution for 2016 was reflective of the non-recurring additional costs for legal and accounting services recognized in 2016 to address a trust operations trading error and resulted in higher professional fees and other expenses. These additional costs along with a lower level of Trust fee income more than offset successful new business development activities as well as effective management of existing customer accounts in this volatile market environment. Overall, the fair market value of trust assets under administration totaled $1.993 billion at December 31, 2016, an increase of $18 million, or 0.9%, from the December 31, 2015 total of $1.975 billion.

The investment/parent segment reported a net loss of $5.2 million in 2016, which was higher than the net loss of $3.8 million in 2015 and $3.9 million in 2014. Overall this segment has felt the most earnings pressure from the continued low interest rate environment. The lower level of BOLI income recognized by the Company in 2016 also significantly impacted this segment. Additionally, both the interest expense of the trust preferred securities and subordinated debt interest expense are allocated to this segment. Note that the first full year of interest expense associated with the subordinated debt occurred in 2016. The Company did generate investment security gains of $177,000 in 2016 and $71,000 in 2015 from the sale of certain low balance, rapidly prepaying mortgage backed securities which had a favorable impact on earnings in this segment.

For greater discussion on the future strategic direction of the Company s key business segments, see Management s Discussion and Analysis Forward Looking Statements. For a more detailed analysis of the segment results, see Footnote 21.

26

BALANCE SHEET... The Company s total consolidated assets of $1.154 billion at December 31, 2016 grew by $5.3 million or 0.5% from the $1.148 billion level at December 31, 2015. This asset growth was due primarily to a $16.9 million or 12.0% increase in total investment securities in 2016. This investment securities increase was partially offset by a $16.1 million decrease in short term investments and cash used to redeem the SBLF preferred stock. Loan growth during this period was $2.9 million or 0.3%, which is lower than the 2015 level due to lower levels of production in the months leading up to the presidential election that was caused by uncertainty in the market. However, loan production in the first six months of 2016 and after the election was at more typical levels due to continued successful results of the Company s intensive sales calling efforts with an emphasis on generating commercial loans and owner occupied CRE loans particularly through its loan production offices.

The Company also funded the previously mentioned asset growth by increasing deposits ($64 million), partially offset by a reduction in FHLB borrowings ($38 million). The FHLB term advances, with maturities between 3 and 5 years, now total $46 million as the Company has utilized these advances to help mitigate interest rate risk. Other liabilities increased by $2.8 million due to an increase in the Company s pension liability. Total stockholders equity decreased by $23.6 million since year-end 2015 mainly due to the redemption of $21 million of preferred stock from the US Treasury under the SBLF program. The Company continues to be considered well capitalized for regulatory purposes with a risk based capital ratio of 13.15% and an asset leverage ratio of 9.35% at December 31, 2016. The Company s book value per common share was $5.05, its tangible book value per common share was $4.41 and its tangible common equity to tangible assets ratio was 7.31% at December 31, 2016.

LIQUIDITY... The Company s liquidity position has been strong during the last several years. Our core retail deposit base has grown over the past four years and has been adequate to fund the Company s operations. Cash flow from maturities, prepayments and amortization of securities was also used to help fund loan growth. We strive to operate our loan to deposit ratio in a range of 85% to 100%. At December 31, 2016, the Company s loan to deposit ratio was 91.6%. Given current commercial loan pipelines and the continued development of our four existing loan production offices, we are optimistic that we can grow our loan to deposit ratio and remain within our guideline parameters.

Liquidity can also be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents decreased by $14.4 million from December 31, 2015, to December 31, 2016, due to $25.2 million of cash used in investing activities. This was partially offset by $6.7 million of cash provided by operating activities and $4.1 million provided by financing activities. Within investing activities, cash advanced for new loan fundings and purchases totalled $214.2 million and was $5.8 million higher than the $208.4 million of cash received from loan principal payments and sales. Within financing activities, deposits increased by $64.5 million, which was used to help fund the overall loan growth experienced in 2016. Total FHLB borrowings decreased as advances, both short-term and long term, were reduced by $38.5 million. Early in 2016 the Company redeemed the $21 million preferred stock issued to the US Treasury under the SBLF program.

The holding company had a total of $11.5 million of cash, short-term investments, and investment securities at December 31, 2016. Additionally, dividend payments from our subsidiaries can also provide ongoing cash to the holding company. At December 31, 2016, our subsidiary Bank had $3.5 million of cash available for immediate dividends to the holding company under applicable regulatory formulas. As such, 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, which in total should approximate $4.9 million over the next twelve months.

Financial institutions must maintain liquidity to meet day-to-day requirements of depositors and borrowers, take advantage of market opportunities, and provide a cushion against unforeseen needs. Liquidity needs can be met by either reducing assets or increasing liabilities. Sources of asset liquidity are provided by short-term investment securities, time deposits with banks, federal funds sold, and short-term investments in money market funds. These assets totaled $38 million and $45 million at December 31, 2016 and 2015, respectively. Maturing and repaying loans, as well as the monthly cash flow associated with mortgage-backed securities and security maturities are other significant sources of asset liquidity for the Company.

27

Liability liquidity can be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds, or utilizing the facilities of the Federal Reserve or the FHLB systems. The Company utilizes a variety of these methods of liability liquidity. Additionally, the Company s subsidiary bank is a member of the FHLB, which provides the opportunity to obtain short- to longer-term advances based upon the Company s investment in assets secured by one- to four-family residential real estate. At December 31, 2016, the Company had $402 million of overnight borrowing availability at the FHLB, $29 million of short-term borrowing availability at the Federal Reserve Bank and $39 million of unsecured federal funds lines with correspondent banks. The Company believes it has ample liquidity available to fund outstanding loan commitments if they were fully drawn upon.

CAPITAL RESOURCES... The Company meaningfully exceeds all regulatory capital ratios for each of the periods presented and is considered well capitalized. The asset leverage ratio was 9.35% and the risk based capital ratio was 13.15% at December 31, 2016. We anticipate that we will maintain our strong capital ratios throughout 2017. Capital generated from earnings will be utilized to pay the common stock cash dividend, support the stock repurchase program and will also support anticipated balance sheet growth. Our common dividend payout ratio for the full year 2016 was 41.2%. Late in 2015, the Company issued $7.65 million of subordinated debt which qualifies as Tier 2 capital for regulatory capital calculation purposes. In the first quarter of 2016, we used the net proceeds from the subordinated debt issuance along with a meaningful portion of holding company cash to redeem the SBLF preferred stock prior to the interest rate on the SBLF increasing from 1% to 9%. In the third quarter of 2016, the Company increased its common stock dividend by $0.005 to $0.015 per common share. Total Parent Company cash was $11.5 million at December 31, 2016.

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. As of December 31, 2016, the Company had approximately 18.9 million shares of its common stock outstanding.

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 4.5% initially and 7.0% at January 1, 2019; a tier 1 capital ratio of 6.0% and 8.50%; a total capital ratio of 8.0% 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 2.5% 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.

The Company s capital position will be more than adequate to meet the revised regulatory capital requirements.

INTEREST RATE SENSITIVITY... Asset/liability management involves managing the risks associated with changing interest rates and the resulting impact on the Company s net interest income, net income and capital. The management and measurement of interest rate risk at the Company is performed by using the following tools: 1) simulation modeling, which analyzes the impact of interest rate changes on net interest income, net income and capital levels over specific future time periods. The simulation modeling forecasts earnings under a variety of scenarios that incorporate changes in the absolute level of interest rates, the shape of the yield curve, prepayments and changes in the volumes and rates of various loan and deposit categories. The simulation modeling incorporates assumptions about reinvestment and the repricing characteristics of certain assets and liabilities without stated contractual maturities; 2) market value of portfolio equity sensitivity analysis, and 3) static GAP analysis, which analyzes the extent to which interest rate sensitive assets and interest rate sensitive liabilities are matched at specific points in time. The overall interest rate risk position and strategies are reviewed by senior management and the Company s Board on an ongoing basis.

The following table presents a summary of the Company s static GAP positions at December 31, 2016:

INTEREST SENSITIVITY PERIOD	3 MONTHS OR LESS	OVER 3 MONTHS THROUGH 6 MONTHS	OVER 6 MONTHS THROUGH 1 YEAR	OVER 1 YEAR	TOTAL
	(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)				
RATE SENSITIVE ASSETS:					
Loans and loans held for sale	**$270,021**	**$67,271**	**$97,093**	**$452,473**	**$886,858**
Investment securities	**35,008**	**4,920**	**9,791**	**108,023**	**157,742**
Short-term assets	**8,966**				**8,966**
Regulatory stock	**3,359**			**2,125**	**5,484**
Bank owned life insurance			**37,903**		**37,903**
Total rate sensitive assets	**$317,354**	**$72,191**	**$144,787**	**$562,621**	**$1,096,953**
RATE SENSITIVE LIABILITIES:					
Deposits:					
Non-interest bearing deposits	**$**	**$**	**$**	**$188,808**	**$188,808**
NOW	**4,576**			**159,225**	**163,801**
Money market	**207,625**			**51,353**	**258,978**
Other savings	**24,119**			**72,356**	**96,475**
Certificates of deposit of $100,000 or more	**5,800**	**8,753**	**6,835**	**6,039**	**27,427**
Other time deposits	**46,281**	**23,435**	**18,858**	**143,723**	**232,297**
Total deposits	**288,401**	**32,188**	**25,693**	**621,504**	**967,786**
Borrowings	**15,754**	**2,000**	**7,000**	**53,891**	**78,645**
Total rate sensitive liabilities	**$304,155**	**$34,188**	**$32,693**	**$675,395**	**$1,046,431**
INTEREST SENSITIVITY GAP:					
Interval	**13,199**	**38,003**	**112,094**	**(112,774)**	
Cumulative	**$13,199**	**$51,202**	**$163,296**	**$50,522**	**$50,522**
Period GAP ratio	**1.04X**	**2.11X**	**4.43X**	**0.83X**	
Cumulative GAP ratio	**1.04**	**1.15**	**1.44**	**1.05**	
Ratio of cumulative GAP to total assets	**1.14** %	**4.44** %	**14.15** %	**4.38** %	

When December 31, 2016 is compared to December 31, 2015, the Company s cumulative GAP ratio through one year indicates that the Company s balance sheet is still asset sensitive with some improvement noted between years. We continue to see loan customer preference for fixed rate loans given the overall low level of interest rates. Also, we have extended some term advances with the FHLB to help manage our interest rate risk position. Overall, the absolute low level of short interest rates makes this table more difficult to analyze since there is little room for certain deposit liabilities to reprice downward further.

Management places primary emphasis on simulation modeling to manage and measure interest rate risk. The Company s asset/liability management policy seeks to limit net interest income variability over the first twelve months of the forecast period to +/-7.5%, which include interest rate movements of 200 basis points. Additionally, the Company also uses market value sensitivity measures to further evaluate the balance sheet exposure to changes in interest rates. The Company monitors the trends in market value of portfolio equity sensitivity analysis on a quarterly basis.

29

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
200 bp increase	**3.6** %	**20.5** %
100 bp increase	**2.1**	**11.9**
100 bp decrease	**(3.0**)	**(16.8**)

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 and scheduled repricing of loans tied to LIBOR or prime. Also, the Company expects that it will not have to reprice its core deposit accounts up as quickly when 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 a targeted range of 0.50% to 0.75%. 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.

Within the investment portfolio at December 31, 2016, 81% of the portfolio is classified as available for sale and 19% as held to maturity. The available for sale classification provides management with greater flexibility to manage the securities portfolio to better achieve overall balance sheet rate sensitivity goals and provide liquidity if needed. The mark to market of the available for sale securities does inject more volatility in the book value of equity, but has no impact on regulatory capital. There are 101 securities that are temporarily impaired at December 31, 2016. The Company reviews its securities quarterly and has asserted that at December 31, 2016, the impaired value of securities represents temporary declines due to movements in interest rates and the Company does have the ability and intent to hold those securities to maturity or to allow a market recovery. Furthermore, it is the Company s intent to manage its long-term interest rate risk by continuing to sell newly originated fixed-rate 30-year mortgage loans into the secondary market (excluding construction and any jumbo loans). The Company also sells 15-year fixed-rate mortgage loans into the secondary market as well, depending on market conditions. For the year 2016, 83% of all residential mortgage loan production was sold into the secondary market.

The amount of loans outstanding by category as of December 31, 2016, which are due in (i) one year or less, (ii) more than one year through five years, and (iii) over five years, are shown in the following table. Loan balances are also categorized according to their sensitivity to changes in interest rates.

	ONE YEAR OR LESS	MORE THAN ONE YEAR THROUGH FIVE YEARS	OVER FIVE YEARS	TOTAL LOANS
	(IN THOUSANDS, EXCEPT RATIOS)			
Commercial	**$50,851**	**$75,587**	**$45,091**	**$171,529**
Commercial loans secured by real estate	**49,262**	**132,941**	**264,395**	**446,598**
Real estate-mortgage	**23,051**	**58,722**	**167,086**	**248,859**
Consumer	**7,546**	**4,385**	**7,941**	**19,872**
Total	**$130,710**	**$271,635**	**$484,513**	**$886,858**
Loans with fixed-rate	**$41,707**	**$123,926**	**$258,286**	**$423,919**
Loans with floating-rate	**89,003**	**147,709**	**226,227**	**462,939**
Total	**$130,710**	**$271,635**	**$484,513**	**$886,858**
Percent composition of maturity	**14.7** %	**30.6** %	**54.6** %	**100.0** %
Fixed-rate loans as a percentage of total loans				**47.8** %
Floating-rate loans as a percentage of total loans				**52.2** %

The loan maturity information is based upon original loan terms and is not adjusted for principal paydowns and rollovers. In the ordinary course of business, loans maturing within one year may be renewed, in whole or in part, as to principal amount at interest rates prevailing at the date of renewal.

CONTRACTUAL OBLIGATIONS... The following table presents, as of December 31, 2016, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

	NOTE REFERENCE	PAYMENTS DUE IN ONE YEAR OR LESS	ONE TO THREE YEARS	THREE TO FIVE YEARS	OVER FIVE YEARS	TOTAL
	(IN THOUSANDS)					
Deposits without a stated maturity	**8**	**$708,062**	**$**	**$**	**$**	**$708,062**
Certificates of deposit*	**8**	**111,424**	**90,110**	**48,129**	**19,612**	**269,275**
Borrowed funds*	**10**	**24,977**	**25,603**	**9,761**		**60,341**
Guaranteed junior subordinated deferrable interest debentures*	**10**	**1,015**	**2,030**	**2,030**	**18,890**	**23,965**
Subordinated debt*	**10**	**497**	**994**	**994**	**9,639**	**12,124**
Pension obligation	**14**	**3,000**				**3,000**
Lease commitments	**15**	**578**	**613**	**468**	**1,505**	**3,164**

* Includes interest based upon interest rates in effect at December 31, 2016. Future changes in market interest rates could materially affect contractual amounts to be paid.

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 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. The Company had various outstanding commitments to extend credit approximating $160.5 million and standby letters of credit of $8.5 million as of December 31, 2016. The Company can also 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 had no interest rate contracts outstanding as of December 31, 2016.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES... The accounting and reporting policies of the Company are in accordance with GAAP and conform to general practices within the banking industry. Accounting and reporting policies for the ALL, 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 (credit) 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.

Commercial and CRE loans are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the ALL. Approximately $7.6 million, or 77%, of the total ALL at December 31, 2016 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 Troubled Debt Restructured (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

32

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.

The Company recorded a $669,000 impairment charge as a result of a goodwill impairment analysis performed in the third quarter of 2014. A qualitative assessment of WCCA indicated that it was more likely than not that the carrying value of WCCA exceeded its fair value. As such, the Company then performed the necessary two-step impairment test. In Step 1, we determined the carrying value of WCCA, including the goodwill, and compared it to the estimated fair value of WCCA. The results of Step 1 indicated that the carrying value of the goodwill exceeded the fair value so it was necessary to move to Step 2 where we measured the amount of the impairment loss. After performing Step 2, we determined that the implied value of the goodwill was less than its carrying costs, which caused us to record an impairment charge of $669,000 in the third quarter of 2014. Overall, the voluntary departure of WCCA s former CEO and the related litigation against him for violations of his employment agreement, caused disruption within the WCCA customer base during 2014. This disruption ultimately led to the loss of certain clients and a reduction in the projected earnings capacity of WCCA. These were the key facts and circumstances that led to the goodwill impairment charge in the third quarter of 2014. The Company utilized a discounted cash flow model along with a valuation technique based upon a multiple of revenues to estimate the fair value of WCCA. In 2015, WCCA returned to profitability, stabilized earnings, and then increased earnings in 2016, which reflected that no impairment charge was necessary.

ACCOUNT Income Taxes

BALANCE SHEET REFERENCE Net deferred tax asset

INCOME STATEMENT REFERENCE Provision for income taxes

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.

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

33

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 December 31, 2016, 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 (losses) 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 December 31, 2016, 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 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 STATEMENTS...

THE STRATEGIC FOCUS:

The challenge for the future is to improve earnings performance to 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. This Company will not succumb to the lure of quick fixes and fancy financial gimmicks. 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.

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 among all customer service areas so our revenue producing products can be tailored to meet the needs of existing and prospective customers. The Company s Strategic Plan contains action plans in each of these areas particularly on increasing loans through several loan production offices. The Strategic Plan also states that purchases of investment securities will become more diverse and include high quality corporate and taxable municipal securities while continuing to purchase federal agency mortgage backed securities that provide a return consistent with the market as well as asset cash flow liquidity. 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 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 had 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 recently announced the closure of its Harrisonburg, Virginia loan production office. We anticipate that the combined annual cost savings from these profitability improvement initiatives will approximate $1.2 million.

This Form 10-K 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, anticipat intend, project, plan or similar expressions. These forward-looking statements are based upon current expectations, ar 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-K, 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-K. 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.

35

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk identification and management are essential elements for the successful management of the Company. In the normal course of business, the Company is subject to various types of risk, including interest rate, credit, and liquidity risk. The Company controls and monitors these risks with policies, procedures, and various levels of managerial and Board oversight. The Company s objective is to optimize profitability while managing and controlling risk within Board approved policy limits.

Interest rate risk is the sensitivity of net interest income and the market value of financial instruments to the magnitude, direction, and frequency of changes in interest rates. Interest rate risk results from various repricing frequencies and the maturity structure of assets, liabilities, and hedges. The Company uses its asset liability management policy and hedging policy to control and manage interest rate risk. For information regarding the effect of changing interest rates on the Company s net interest income and market value of its investment portfolio, see Management s Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Sensitivity.

Liquidity risk represents the inability to generate cash or otherwise obtain funds at reasonable rates to satisfy commitments to borrowers, as well as, the obligations to depositors, debtholders and to fund operating expenses. The Company uses its asset liability management policy and contingency funding plan to control and manage liquidity risk. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity.

Credit risk represents the possibility that a customer may not perform in accordance with contractual terms. Credit risk results from extending credit to customers, purchasing securities, and entering into certain off-balance sheet loan funding commitments. The Company s primary credit risk occurs in the loan portfolio. The Company uses its credit policy and disciplined approach to evaluating the adequacy of the ALL to control and manage credit risk. The Company s investment policy and hedging policy strictly limit the amount of credit risk that may be assumed in the investment portfolio and through hedging activities.

For information regarding the market risk of the Company s financial instruments, see Management s Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Sensitivity. The Company s principal market risk exposure is to interest rates.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AMERISERV FINANCIAL, INC.

CONSOLIDATED BALANCE SHEETS

	AT DECEMBER 31, 2016	2015
	(IN THOUSANDS, EXCEPT SHARE DATA)	
ASSETS		
Cash and due from depository institutions	**$25,107**	$23,443
Interest bearing deposits	**3,066**	6,960
Short-term investments in money market funds	**5,900**	18,107
Cash and cash equivalents	**34,073**	48,510
Investment securities:		
Available for sale	**127,077**	119,467
Held to maturity (fair value $30,420 at December 31, 2016 and $21,533 at December 31, 2015)	**30,665**	21,419
Loans held for sale	**3,094**	3,003
Loans	**884,240**	881,541
Less: Unearned income	**476**	557
Allowance for loan losses	**9,932**	9,921
Net loans	**873,832**	871,063
Premises and equipment, net	**11,694**	12,108
Accrued interest income receivable	**3,116**	3,057
Goodwill	**11,944**	11,944
Bank owned life insurance	**37,903**	37,228
Net deferred tax asset	**10,655**	8,993
Federal Home Loan Bank stock	**3,359**	4,628
Federal Reserve Bank stock	**2,125**	2,125
Other assets	**4,243**	4,952
TOTAL ASSETS	**$1,153,780**	$1,148,497
LIABILITIES		
Non-interest bearing deposits	**$188,808**	$188,947
Interest bearing deposits	**778,978**	714,347
Total deposits	**967,786**	903,294
Short-term borrowings	**12,754**	48,748
Advances from Federal Home Loan Bank	**45,542**	48,000
Guaranteed junior subordinated deferrable interest debentures	**12,908**	12,892
Subordinated debt	**7,441**	7,418
Total borrowed funds	**78,645**	117,058
Other liabilities	**11,954**	9,172
TOTAL LIABILITIES	**1,058,385**	1,029,524
STOCKHOLDERS EQUITY		

Preferred stock, no par value; $1,000 per share liquidation preference; 2,000,000 shares authorized; there were 21,000 shares issued and outstanding on December 31, 2015		21,000
Common stock, par value $0.01 per share; 30,000,000 shares authorized: 26,521,291 shares issued and 18,903,472 shares outstanding on December 31, 2016; 26,488,630 shares issued and 18,870,811 shares outstanding on December 31, 2015	**265**	265
Treasury stock at cost, 7,617,819 shares on December 31, 2016 and 2015	**(74,829)**	(74,829)
Capital surplus	**145,535**	145,441
Retained earnings	**36,001**	34,651
Accumulated other comprehensive loss, net	**(11,577)**	(7,555)
TOTAL STOCKHOLDERS EQUITY	**95,395**	118,973
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$1,153,780**	$1,148,497

See accompanying notes to consolidated financial statements.

37

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2016	2015	2014
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
INTEREST INCOME			
Interest and fees on loans:			
Taxable	**$ 37,786**	$ 37,923	$ 36,285
Tax exempt	**75**	72	57
Interest bearing deposits	**13**	8	5
Short-term investments in money market funds	**84**	14	7
Investment securities:			
Available for sale	**3,132**	3,250	3,528
Held to maturity	**779**	614	559
Total Interest Income	**41,869**	41,881	40,441
INTEREST EXPENSE			
Deposits	**5,400**	4,752	4,889
Short-term borrowings	**52**	86	55
Advances from Federal Home Loan Bank	**644**	558	333
Guaranteed junior subordinated deferrable interest debentures	**1,120**	1,120	1,120
Subordinated debt	**519**	4	
Total Interest Expense	**7,735**	6,520	6,397
Net Interest Income	**34,134**	35,361	34,044
Provision for loan losses	**3,950**	1,250	375
Net Interest Income after Provision for Loan Losses	**30,184**	34,111	33,669
NON-INTEREST INCOME			
Trust and investment advisory fees	**8,333**	8,344	7,765
Service charges on deposit accounts	**1,674**	1,750	1,957
Net gains on loans held for sale	**884**	767	748
Mortgage related fees	**367**	391	590
Net realized gains on investment securities	**177**	71	177
Bank owned life insurance	**675**	1,617	748
Other income	**2,528**	2,327	2,338
Total Non-Interest Income	**14,638**	15,267	14,323
NON-INTEREST EXPENSE			
Salaries and employee benefits	**24,034**	24,042	24,960
Net occupancy expense	**2,782**	2,941	2,964
Equipment expense	**1,688**	1,773	1,892
Professional fees	**5,280**	5,003	5,409
Supplies, postage, and freight	**705**	726	761
Miscellaneous taxes and insurance	**1,146**	1,157	1,174
Federal deposit insurance expense	**709**	669	636

Goodwill impairment charge			669
Other expense	**5,271**	4,727	4,906
Total Non-Interest Expense	**41,615**	41,038	43,371

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)

	YEAR ENDED DECEMBER 31,		
	2016	2015	2014
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
PRETAX INCOME	**3,207**	8,340	4,621
Provision for income taxes	**897**	2,343	1,598
NET INCOME	**2,310**	5,997	3,023
Preferred stock dividends	**15**	210	210
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	**$ 2,295**	$ 5,787	$ 2,813
PER COMMON SHARE DATA:			
Basic:			
Net income	**$ 0.12**	$ 0.31	$ 0.15
Average number of shares outstanding	**18,896**	18,863	18,793
Diluted:			
Net income	**$ 0.12**	$ 0.31	$ 0.15
Average number of shares outstanding	**18,955**	18,933	18,908
Cash dividends declared	**$ 0.05**	$ 0.04	$ 0.04

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	YEAR ENDED DECEMBER 31,		
	2016	2015	2014
	(IN THOUSANDS)		
COMPREHENSIVE INCOME (LOSS)			
Net income	**$2,310**	$5,997	$3,023
Other comprehensive loss, before tax:			
Pension obligation change for defined benefit plan	**(4,612)**	579	(2,769)
Income tax effect	**1,569**	(197)	942
Unrealized holding gains (losses) on available for sale securities arising during period	**(1,305)**	(1,498)	1,391
Income tax effect	**443**	509	(474)
Reclassification adjustment for net realized gains on available for sale securities included in net income	**(177)**	(71)	(177)
Income tax effect	**60**	25	60
Other comprehensive loss	**(4,022)**	(653)	(1,027)
Comprehensive income (loss)	**$(1,712)**	$5,344	$1,996

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	YEAR ENDED DECEMBER 31,		
	2016	2015	2014
	(IN THOUSANDS)		
PREFERRED STOCK			
Balance at beginning of period	**$21,000**	$21,000	$21,000
Redemption of all preferred shares outstanding	**(21,000)**		
Balance at end of period		21,000	21,000
COMMON STOCK			
Balance at beginning of period	**265**	264	264
New common shares issued for dividend reinvestment and stock purchase plan		1	
Balance at end of period	**265**	265	264
TREASURY STOCK			
Balance at beginning of period	**(74,829)**	(74,829)	(74,829)
Balance at end of period	**(74,829)**	(74,829)	(74,829)
CAPITAL SURPLUS			
Balance at beginning of period	**145,441**	145,256	145,190
New common shares issued for exercise of stock options	**74**	156	24
Stock option expense	**20**	29	42
Balance at end of period	**145,535**	145,441	145,256
RETAINED EARNINGS			
Balance at beginning of period	**34,651**	29,618	27,557
Net income	**2,310**	5,997	3,023
Cash dividend declared on common stock	**(945)**	(754)	(752)
Cash dividend declared on preferred stock	**(15)**	(210)	(210)
Balance at end of period	**36,001**	34,651	29,618
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET			
Balance at beginning of period	**(7,555)**	(6,902)	(5,875)
Other comprehensive loss	**(4,022)**	(653)	(1,027)
Balance at end of period	**(11,577)**	(7,555)	(6,902)
TOTAL STOCKHOLDERS EQUITY	**$95,395**	$118,973	$114,407

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2016	2015	2014
	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income	**$2,310**	$5,997	$3,023
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**3,950**	1,250	375
Depreciation and amortization expense	**1,803**	1,790	1,836
Net amortization of investment securities	**488**	342	385
Net realized gains on investment securities available for sale	**(177)**	(71)	(177)
Net gains on loans held for sale	**(884)**	(767)	(748)
Amortization of deferred loan fees	**(231)**	(249)	(262)
Origination of mortgage loans held for sale	**(59,252)**	(51,759)	(51,481)
Sales of mortgage loans held for sale	**60,045**	54,574	50,580
Decrease (increase) in accrued interest receivable	**(59)**	70	(219)
Decrease in accrued interest payable	**(11)**	(55)	(78)
Earnings on bank-owned life insurance	**(675)**	(690)	(748)
Deferred income taxes	**414**	888	562
Stock compensation expense	**94**	186	66
Goodwill impairment charge			669
Amortization of long term debt issuance costs	**39**		
Other, net	**(1,186)**	(1,674)	1,179
Net cash provided by operating activities	**6,668**	9,832	4,962
INVESTING ACTIVITIES			
Purchase of investment securities available for sale	**(42,844)**	(22,241)	(12,218)
Purchase of investment securities held to maturity	**(12,038)**	(6,237)	(3,093)
Proceeds from maturities of investment securities available for sale	**24,574**	24,532	22,900
Proceeds from maturities of investment securities held to maturity	**2,693**	4,601	1,390
Proceeds from sales of investment securities available for sale	**8,966**	3,570	5,242
Purchase of regulatory stock	**(10,911)**	(19,320)	(9,817)
Proceeds from redemption of regulatory stock	**12,180**	18,740	10,446
Long-term loans originated	**(196,998)**	(246,304)	(177,351)
Principal collected on long-term loans	**189,505**	183,380	130,476
Participations purchased	**(17,192)**	(15,019)	(5,347)
Participations sold	**18,900**	23,774	10,810
Net increase in other short-term loans	**(875)**	(627)	(3,558)
Purchases of premises and equipment	**(1,380)**	(881)	(1,720)
Proceeds from sale of other real estate owned	**235**	579	946
Proceeds from life insurance policies		1,598	

Net cash used in investing activities	**(25,185)**	(49,855)	(30,894)
FINANCING ACTIVITIES			
Net increase in deposit balances	**64,492**	33,339	15,375
Net increase (decrease) in other short-term borrowings	**(35,994)**	9,868	(2,675)
Principal borrowings on advances from Federal Home Loan Bank	**9,542**	10,000	17,000
Principal repayments on advances from Federal Home Loan Bank	**(12,000)**	(4,000)	
Subordinated debt issuance, net		7,418	
Preferred stock redemption	**(21,000)**		
Preferred stock dividend paid	**(15)**	(210)	(210)
Common stock dividend paid	**(945)**	(754)	(752)
Net cash provided by financing activities	**4,080**	55,661	28,738
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(14,437)**	15,638	2,806
CASH AND CASH EQUIVALENTS AT JANUARY 1	**48,510**	32,872	30,066
CASH AND CASH EQUIVALENTS AT DECEMBER 31	**$34,073**	$48,510	$32,872

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND NATURE OF OPERATIONS:

AmeriServ Financial, Inc. (the Company) is a bank holding company, headquartered in Johnstown, Pennsylvania. Through its banking subsidiary the Company operates 16 banking locations in five southwestern Pennsylvania counties. These branches provide a full range of consumer, mortgage, and commercial financial products. The AmeriServ Trust and Financial Services Company (Trust Company) offers a complete range of trust and financial services and administers assets valued at approximately $2.0 billion that are not recognized on the Company s Consolidated Balance Sheet at December 31, 2016.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of AmeriServ Financial, Inc. and its wholly-owned subsidiaries, AmeriServ Financial Bank (the Bank), Trust Company, and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 16 locations in Pennsylvania. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

Intercompany accounts and transactions have been eliminated in preparing the Consolidated Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles, or GAAP) requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Actual results may differ from these estimates and the differences may be material to the Consolidated Financial Statements. The Company s most significant estimates relate to the allowance for loan losses, goodwill, income taxes, investment securities, pension, and the fair value of financial instruments.

INVESTMENT SECURITIES:

Securities are classified at the time of purchase as investment securities held to maturity if it is management s intent and the Company has the ability to hold the securities until maturity. These held to maturity securities are carried on the Company s books at cost, adjusted for amortization of premium and accretion of discount which is computed using the level yield method which approximates the effective interest method. Alternatively, securities are classified as available for sale if it is management s intent at the time of purchase to hold the securities for an indefinite period of time and/or to use the securities as part of the Company s asset/liability management strategy. Securities classified as available for sale include securities which may be sold to effectively manage interest rate risk exposure, prepayment risk, and other factors (such as liquidity requirements). These available for sale securities are reported at fair value with unrealized aggregate appreciation/depreciation excluded from income and credited/charged to accumulated other comprehensive income/loss within stockholders equity on a net of tax basis. Any securities classified as trading assets are reported at fair value with unrealized aggregate appreciation/depreciation included in income on a net of tax basis. The Company does not engage in trading activity.

Realized gains or losses on securities sold are computed upon the adjusted cost of the specific securities sold. 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. 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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

FEDERAL HOME LOAN BANK STOCK:

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) and as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for by management. The stock s value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) The significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time any such situation has persisted (b) Commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) The impact of legislative and regulatory changes on the customer base of FHLB and (d) The liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

LOANS:

Interest income is recognized using the level yield method related to principal amounts outstanding. The Company discontinues the accrual of interest income when loans become 90 days past due in either principal or interest. In addition, if circumstances warrant, the accrual of interest may be discontinued prior to 90 days. Payments received on non-accrual loans are credited to principal until full recovery of principal has been recognized; or the loan has been returned to accrual status. The only exception to this policy is for residential mortgage loans wherein interest income is recognized on a cash basis as payments are received. A non-accrual commercial loan is placed on accrual status after becoming current and remaining current for twelve consecutive payments. Residential mortgage loans are placed on accrual status upon becoming current.

LOAN FEES:

Loan origination and commitment fees, net of associated direct costs, are deferred and amortized into interest and fees on loans over the loan or commitment period. Fee amortization is determined by the effective interest method.

LOANS HELD FOR SALE:

Certain newly originated fixed-rate residential mortgage loans are classified as held for sale, because it is management s intent to sell these residential mortgage loans. The residential mortgage loans held for sale are carried at the lower of aggregate cost or market value.

TRANSFERS OF FINANCIAL ASSETS:

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

PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost less accumulated depreciation and amortization. Land is carried at cost. Depreciation is charged to operations over the estimated useful lives of the premises and equipment using the straight-line method with a half-year convention. Useful lives of up to 30 years for buildings and up to 10 years for equipment are utilized. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases or useful lives of the improvements, whichever is shorter. Maintenance, repairs, and minor alterations are charged to current operations as expenditures are incurred.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ALLOWANCE FOR LOAN LOSSES AND CHARGE-OFF PROCEDURES:

As a financial institution, which assumes lending and credit risks as a principal element of its business, the Company anticipates that credit losses will be experienced in the normal course of business. Accordingly, the Company consistently applies a comprehensive methodology and procedural discipline to perform an analysis which is updated on a quarterly basis at the Bank level to determine both the adequacy of the allowance for loan losses and the necessary provision for loan losses to be charged against earnings. This methodology includes:

Review of all criticized, classified and impaired loans with aggregate balances over $250,000 to determine if any specific reserve allocations are required on an individual loan basis. All required specific reserve allocations are based on careful analysis of the loan s performance, the related collateral value, cash flow considerations and the financial capability of any guarantor. All loans classified as doubtful or worse are specifically reserved. For impaired loans the measurement of impairment may be based upon: 1) the present value of expected future cash flows discounted at the loan s effective interest rate; 2) the observable market price of the impaired loan; or 3) the fair value of the collateral of a collateral dependent loan.

The application of formula driven reserve allocations for all commercial and commercial real-estate loans by using a three-year migration analysis of net losses incurred within each risk grade for the entire commercial loan portfolio. The difference between estimated and actual losses is reconciled through the nature of the migration analysis.

The application of formula driven reserve allocations to consumer and residential mortgage loans which are based upon historical net charge-off experience for those loan types. The residential mortgage loan and consumer loan allocations are based upon the Company s three-year historical average of actual loan net charge-offs experienced in each of those categories.

The application of formula driven reserve allocations to all outstanding loans is based upon review of historical losses and qualitative factors, which include but are not limited to, economic trends, delinquencies, levels of non-accrual 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.

Management recognizes that there may be events or economic factors that have occurred affecting specific borrowers or segments of borrowers that may not yet be fully reflected in the information that the Company uses for arriving at reserves for a specific loan or portfolio segment. Therefore, the Company believes that there is estimation risk associated with the use of specific and formula driven allowances.

After completion of this process, a formal meeting of the Loan Loss Reserve Committee is held to evaluate the adequacy of the reserve.

When it is determined that the prospects for recovery of the principal of a loan have significantly diminished, the loan is charged against the allowance account; subsequent recoveries, if any, are credited to the allowance account. In addition, non-accrual and large delinquent loans are reviewed monthly to determine potential losses.

The Company s policy is to individually review, as circumstances warrant, its commercial and commercial mortgage loans to determine if a loan is impaired. 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. The Company defines classified loans as those loans rated substandard or doubtful. The Company has also identified three pools of small dollar value homogeneous loans which are evaluated collectively for impairment. These separate pools are for small business relationships with aggregate balances

45

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

of $250,000 or less, residential mortgage loans and consumer loans. Individual loans within these pools are reviewed and evaluated for specific impairment if factors such as significant delinquency in payments of 90 days or more, bankruptcy, or other negative economic concerns indicate impairment.

ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT:

The allowance for unfunded loan commitments and letters of credit is maintained at a level believed by management to be sufficient to absorb estimated losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers and the terms and expiration dates of the unfunded credit facilities. Net adjustments to the allowance for unfunded loan commitments and letters of credit are provided for in the unfunded commitment reserve expense line item within other expense in the Consolidated Statements of Operations and a separate reserve is recorded within the other liabilities section of the Consolidated Balance Sheets.

TRUST FEES:

Trust fees are recorded on the cash basis which approximates the accrual basis for such income.

BANK-OWNED LIFE INSURANCE:

The Company has purchased life insurance policies on certain employees. These policies are recorded on the Consolidated Balance Sheets at their cash surrender value, or the amount that can be realized. Income from these policies and changes in the cash surrender value are recorded in bank owned life insurance within non-interest income.

INTANGIBLE ASSETS:

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. The Company accounts for goodwill using a two-step process for testing the impairment of goodwill on at least an annual basis. This approach could cause more volatility in the Company s reported net income because impairment losses, if any, could occur irregularly and in varying amounts.

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 treated as retired for earnings per share purposes. Options to purchase 51,273, 58,788, and 3,625 shares of common stock were outstanding during 2016, 2015 and 2014, respectively, but were not included in the computation of diluted earnings per common share because to do so would be anti-dilutive.

Exercise prices of anti-dilutive options to purchase common stock outstanding were \$3.23-\$4.60, \$3.23-\$4.70, and \$4.60-\$5.22 during 2016, 2015 and 2014, respectively. Dividends on preferred shares are deducted from net income in the calculation of earnings per common share.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	YEAR ENDED DECEMBER 31,		
	2016	2015	2014
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Numerator:			
Net income	**$ 2,310**	$ 5,997	$ 3,023
Preferred stock dividends	**15**	210	210
Net income available to common shareholders	**$ 2,295**	$ 5,787	$ 2,813
Denominator:			
Weighted average common shares outstanding (basic)	**18,896**	18,863	18,793
Effect of stock options	**59**	70	115
Weighted average common shares outstanding (diluted)	**18,955**	18,933	18,908
Earnings per common share:			
Basic	$ 0.12	$ 0.31	$ 0.15
Diluted	**0.12**	0.31	0.15

STOCK-BASED COMPENSATION:

The Company uses the modified prospective method for accounting of stock-based compensation. The Company recognized $20,000, $29,000 and $42,000 of pretax compensation expense for the years 2016, 2015 and 2014. The fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model. See Note 18 for details on the assumptions used.

ACCUMULATED OTHER COMPREHENSIVE LOSS:

The Company presents the components of other comprehensive income (loss) in the Consolidated Statements of Comprehensive Income. These components are comprised of the change in the defined benefit pension obligation and the unrealized holding gains (losses) on available for sale securities, net of any reclassification adjustments for realized gains and losses.

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 $375,000 in income tax payments in 2016; $1,554,000 in 2015; and $1,063,000 in 2014. The Company had non-cash transfers to other real estate owned (OREO) in the amounts of $172,000 in 2016; $189,000 in 2015; and $660,000 in 2014. The Company made total interest payments of $7,746,000 in 2016; $6,575,000 in 2015; and $6,475,000 in 2014.

INCOME TAXES:

Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate. Deferred income tax expenses or credits are based on the changes in the corresponding asset or liability from period to period. Deferred tax assets are reduced, if necessary, by the amounts of such benefits that are not expected to be realized based upon available evidence.

INTEREST RATE CONTRACTS:

The Company recognizes all derivatives as either assets or liabilities on the Consolidated Balance Sheets and measures those instruments at fair value. For derivatives designated as fair value hedges, changes in the fair value of the derivative and hedged item related to the hedged risk are recognized in earnings. Changes in fair value of derivatives designated and accounted as cash flow hedges, to the extent they are effective as hedges, are recorded in Other Comprehensive Income, net of deferred taxes and are subsequently

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

reclassified to earnings when the hedged transaction affects earnings. Any hedge ineffectiveness would be recognized in the income statement line item pertaining to the hedged item.

The Company periodically enters into derivative instruments to meet the financing, interest rate and equity risk management needs of its customers. Upon entering into these instruments to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These derivative financial instruments are reported at fair value with any resulting gain or loss recorded in current period earnings. These instruments and their offsetting positions are recorded in other assets and other liabilities on the Consolidated Balance Sheets.

PENSION:

Pension costs and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest costs, expected return on plan assets, mortality rates, and other factors. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation of future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Company s pension obligations and future expense. In conjunction with the annual measurement of the funded status of Company s pension plan at December 31, 2016, management elected to change the manner in which the service cost and interest cost components of net periodic benefit cost will be determined in 2017 and beyond. Previously, the service cost and interest cost components were determined by multiplying the single equivalent rate described above and the aggregate discounted cash flows of the plan s service cost and projected benefit obligations.

Under the new methodology, the service cost component will be determined by aggregating the product of the discounted cash flows of the plan s service cost for each year and an individual spot rate (referred to as the spot rate approach). The interest cost component will be determined by aggregating the product of the discounted cash flows of the plan s projected benefit obligations for each year and an individual spot rate. This change will result in a lower service cost and interest cost components of net periodic benefit cost under the new methodology compared to the previous methodology.

Management believes this new methodology, which represents a change in an accounting estimate, is a better measure of the service cost and interest cost as each year s cash flows are specifically linked to the interest rates of bond payments in the same respective year. Our pension benefits are described further in Note 14 of the Notes to Consolidated Financial Statements.

FAIR VALUE OF FINANCIAL INSTRUMENTS:

We group our assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level I Valuation is based upon quoted prices for identical instruments traded in active markets.

Level II Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level III Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company s own estimates of assumptions that market participants would use in pricing the asset.

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in generally accepted accounting principles.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements for most of our assets are obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid, and other market information. Subsequently, all of our financial instruments use either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. In certain cases, however, when market observable inputs for model-based valuation techniques may not be readily available, we are required to make judgments about assumptions market participants would use in estimating the fair value of financial instruments. The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. When market data is not available, we use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations.

RECENT ACCOUNTING STANDARDS:

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.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In March 2016, the FASB issued ASU 2016-05, *Derivatives and Hedging (Topic 815)*. The amendments in this Update apply to all reporting entities for which there is a change in the counterparty to a derivative instrument that has been designated as a heading instrument under Topic 815. The standards in this Update clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. An entity has an option to apply the amendments in this Update on either a prospective basis or a modified retrospective basis. Early adoption is permitted, including adoption in an interim period. This Update is not expected to have a significant impact on the Company s financial statements.

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.

2. CASH AND DUE FROM DEPOSITORY INSTITUTIONS

Included in Cash and due from depository institutions are required federal reserves of $6,000 for December 31, 2016 and $2,000 for December 31, 2015, respectively, for facilitating the implementation of monetary policy by the Federal Reserve System. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These are held in the form of vault cash and a depository amount held with the Federal Reserve Bank.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES

The cost basis and fair values of investment securities are summarized as follows:

Investment securities available for sale:

	AT DECEMBER 31, 2016			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency	**$400**	**$**	**$ (2)**	**$398**
Taxable municipal	**3,793**	**3**	**(174)**	**3,622**
Corporate bonds	**34,403**	**194**	**(724)**	**33,873**
U.S. Agency mortgage-backed securities	**88,738**	**1,132**	**(686)**	**89,184**
Total	**$127,334**	**$ 1,329**	**$ (1,586)**	**$127,077**

Investment securities held to maturity:

	AT DECEMBER 31, 2016			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. 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**

Investment securities available for sale:

	AT DECEMBER 31, 2015			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency	$2,900	$	$ (19)	$2,881
Corporate bonds	18,541	18	(307)	18,252
U.S. Agency mortgage-backed securities	96,801	1,975	(442)	98,334
Total	$118,242	$ 1,993	$ (768)	$119,467

Investment securities held to maturity:

	AT DECEMBER 31, 2015			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency mortgage-backed securities	$ 10,827	$ 247	$ (53)	$ 11,021
Taxable municipal	5,592	67	(65)	5,594
Corporate bonds and other securities	5,000	3	(85)	4,918
Total	$ 21,419	$ 317	$ (203)	$ 21,533

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 Investors Service or Standard & Poor s rating of A. At December 31, 2016, 63.5% of the portfolio was rated AAA as

51

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES (continued)

compared to 79.1% at December 31, 2015. 10.1% of the portfolio was rated below A or unrated on December 31, 2016. The Company and its subsidiaries, collectively, did not hold securities of any single issuer, excluding U.S. Treasury and U.S. Agencies, that exceeded 10% of shareholders equity at December 31, 2016.

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 $104,953,000 at December 31, 2016 and $87,096,000 at December 31, 2015.

The Company realized $183,000 of gross investment security gains and $6,000 of gross investment security losses in 2016 and $107,000 of gross investment security gains and $36,000 of investment security losses in 2015, and $182,000 of gross investment gains and $5,000 of gross investment security losses in 2014. On a net basis, the realized gain for 2016 was $117,000 after factoring in tax expense of $60,000 and the realized gain for 2015 was $47,000 after factoring in tax expense of $24,000, and the realized gain for 2014 was $117,000 after factoring in tax expense of $60,000. Proceeds from sales of investment securities available for sale were $9.0 million for 2016, $3.6 million for 2015, and $5.2 million during 2014.

The following table sets forth the contractual maturity distribution of the investment securities, cost basis and fair market values, and the weighted average yield for each type and range of maturity as of December 31, 2016. Yields are not presented on a tax-equivalent basis, but are based upon the cost basis and are weighted for the scheduled maturity. The Company s consolidated investment securities portfolio had an effective duration of approximately 3.43 years. The weighted average expected maturity for available for sale securities at December 31, 2016 for U.S. Agency, U.S. Agency Mortgage-Backed and Corporate Bond securities was 1.36, 3.84 and 4.90 years, respectively. The weighted average expected maturity for held to maturity securities at December 31, 2016 for U.S. Agency Mortgage-Backed and Corporate Bonds/Taxable Municipals and other securities were 4.02 and 6.22 years.

Investment securities available for sale:

	AT DECEMBER 31, 2016							
	U.S. AGENCY		U.S. AGENCY MORTGAGE-BACKED SECURITIES		CORPORATE BONDS AND OTHER		TOTAL INVESTMENT SECURITIES AVAILABLE FOR SALE	
	(IN THOUSANDS, EXCEPT YIELDS)							
COST BASIS								
Within 1 year	**$**	**%**	**$**	**%**	**$5,000**	**2.17%**	**$5,000**	**2.17%**
After 1 year but within 5 years	**400**	**1.03**	**322**	**4.24**	**6,002**	**2.88**	**6,724**	**2.84**
			17,628	**3.10**	**25,263**	**3.39**	**42,891**	**3.27**

After 5 years but within 10 years								
After 10 years but within 15 years			**37,484**	**2.29**	**1,931**	**3.68**	**39,415**	**2.35**
Over 15 years			**33,304**	**2.12**			**33,304**	**2.12**
Total	**$400**	**1.03**	**$ 88,738**	**2.39**	**$38,196**	**3.16**	**$127,334**	**2.62**
FAIR VALUE								
Within 1 year	**$**		**$**		**$4,981**		**$4,981**	
After 1 year but within 5 years	**398**		**331**		**5,917**		**6,646**	
After 5 years but within 10 years			**18,194**		**24,789**		**42,983**	
After 10 years but within 15 years			**37,288**		**1,808**		**39,096**	
Over 15 years			**33,371**				**33,371**	
Total	**$398**		**$ 89,184**		**$37,495**		**$127,077**	

52

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES (continued)

Investment securities held to maturity:

	AT DECEMBER 31, 2016					
	U.S. AGENCY MORTGAGE-BACKED SECURITIES		CORPORATE BONDS AND OTHER		TOTAL INVESTMENT SECURITIES HELD TO MATURITY	
	(IN THOUSANDS, EXCEPT YIELDS)					
COST BASIS						
Within 1 year	$	%	$	%	$	%
After 1 year but within 5 years			3,400	1.87	3,400	1.87
After 5 years but within 10 years	2,835	2.40	8,134	3.73	10,969	3.39
After 10 years but within 15 years	1,458	3.33	6,882	3.50	8,340	3.47
Over 15 years	6,884	2.90	1,072	4.54	7,956	3.12
Total	$ 11,177	2.83	$ 19,488	3.37	$ 30,665	3.17
FAIR VALUE						
Within 1 year	$		$		$	
After 1 year but within 5 years			3,351		3,351	
After 5 years but within 10 years	2,810		8,016		10,826	
After 10 years but within 15 years	1,510		6,687		8,197	
Over 15 years	6,958		1,088		8,046	
Total	$ 11,278		$ 19,142		$ 30,420	

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

Total investment securities:	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Agency	$398	$ (2)	$	$	$398	$ (2)
U.S. 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 following tables present information concerning investments with unrealized losses as of December 31, 2015 (in thousands):

Total investment securities:	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Agency	$1,486	$ (14)	$395	$ (5)	$1,881	$ (19)
U.S. Agency mortgage-backed securities	33,359	(245)	9,088	(250)	42,447	(495)
Taxable municipal	3,617	(65)			3,617	(65)
Corporate bonds and other securities	8,884	(160)	7,766	(232)	16,650	(392)
Total	$47,346	$ (484)	$17,249	$ (487)	$64,595	$ (971)

53

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES (continued)

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 110 positions that are considered temporarily impaired at December 31, 2016. 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 or mature.

4. LOANS

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,	
	2016	2015
	(IN THOUSANDS)	
Commercial	**$ 171,529**	$ 181,066
Commercial loans secured by real estate	**446,598**	421,637
Real estate-mortgage	**245,765**	257,937
Consumer	**19,872**	20,344
Loans, net of unearned income	**$ 883,764**	$ 880,984

Loan balances at December 31, 2016 and 2015 are net of unearned income of $476,000 and $557,000, respectively. Real estate construction loans comprised 4.7% and 3.0% of total loans net of unearned income at December 31, 2016 and 2015, respectively. The Company has no exposure to subprime mortgage loans in either the loan or investment portfolios. The Company has no direct loan exposure to foreign countries. Additionally, the Company has no significant industry lending concentrations. As of December 31, 2016 and 2015, loans to customers engaged in similar activities and having similar economic characteristics, as defined by standard industrial classifications, did not exceed 10% of total loans. Additionally, the majority of the Company s lending occurs within a 250 mile radius of the Johnstown market.

In the ordinary course of business, the subsidiaries have transactions, including loans, with their officers, directors, and their affiliated companies. In management s opinion, these transactions were on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated parties and do not involve more than the normal credit risk. These loans totaled $578,000 and $846,000 at December 31, 2016 and 2015, respectively.

5. ALLOWANCE FOR LOAN LOSSES

The following table summarizes the rollforward of the allowance for loan losses by portfolio segment (in thousands).

	BALANCE AT DECEMBER 31, 2015	CHARGE-OFFS	RECOVERIES	PROVISION (CREDIT)	BALANCE AT DECEMBER 31, 2016
Commercial	**$ 4,244**	**$ (3,648)**	**$ 140**	**$ 3,305**	**$ 4,041**
Commercial loans secured by real estate	**3,449**	**(13)**	**40**	**108**	**3,584**
Real estate-mortgage	**1,173**	**(291)**	**147**	**140**	**1,169**
Consumer	**151**	**(344)**	**30**	**314**	**151**
Allocation for general risk	**904**			**83**	**987**
Total	**$ 9,921**	**$ (4,296)**	**$ 357**	**$ 3,950**	**$ 9,932**

54

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR LOAN LOSSES (continued)

	BALANCE AT DECEMBER 31, 2014	CHARGE-OFFS	RECOVERIES	PROVISION (CREDIT)	BALANCE AT DECEMBER 31, 2015
Commercial	$ 3,262	$ (170)	$ 101	$ 1,051	$ 4,244
Commercial loans secured by real estate	3,902	(250)	111	(314)	3,449
Real estate-mortgage	1,310	(753)	171	445	1,173
Consumer	190	(188)	26	123	151
Allocation for general risk	959			(55)	904
Total	$ 9,623	$ (1,361)	$ 409	$ 1,250	$ 9,921

	BALANCE AT DECEMBER 31, 2013	CHARGE-OFFS	RECOVERIES	PROVISION (CREDIT)	BALANCE AT DECEMBER 31, 2014
Commercial	$ 2,844	$ (172)	$ 141	$ 449	$ 3,262
Commercial loans secured by real estate	4,885	(708)	231	(506)	3,902
Real estate-mortgage	1,260	(322)	71	301	1,310
Consumer	136	(121)	24	151	190
Allocation for general risk	979			(20)	959
Total	$ 10,104	$ (1,323)	$ 467	$ 375	$ 9,623

The higher provision for commercial loans was necessary due to the charge-off of a $3.3 million loan to a customer in the fracking industry that filed for bankruptcy protection in the first quarter. This is the Company s only meaningful direct loan exposure to the energy industry. The higher provision was also needed to support the continuing growth of the loan portfolio and cover net loan charge-offs. At December 31, 2016, non-performing assets totaled $1.6 million, or 0.18% of total loans.

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

	AT DECEMBER 31, 2016 (IN THOUSANDS)		
Loans:	COMMERCIAL	CONSUMER	TOTAL

		COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE-MORTGAGE		
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

AT DECEMBER 31, 2016
(IN THOUSANDS)

Allowance for loan losses:	COMMERCIAL	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE-MORTGAGE	CONSUMER	ALLOCATION FOR GENERAL RISK	TOTAL
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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR LOAN LOSSES (continued)

	AT DECEMBER 31, 2015 (IN THOUSANDS)				
Loans:	COMMERCIAL	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE-MORTGAGE	CONSUMER	TOTAL
Individually evaluated for impairment	$4,416	$ 86	$	$	$4,502
Collectively evaluated for impairment	176,650	421,551	257,937	20,344	876,482
Total loans	$181,066	$ 421,637	$ 257,937	$ 20,344	$880,984

	AT DECEMBER 31, 2015 (IN THOUSANDS)					
Allowance for loan losses:	COMMERCIAL	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE-MORTGAGE	CONSUMER	ALLOCATION FOR GENERAL RISK	TOTAL
Specific reserve allocation	$1,387	$	$	$	$	$1,387
General reserve allocation	2,857	3,449	1,173	151	904	8,534
Total allowance for loan losses	$4,244	$ 3,449	$ 1,173	$ 151	$ 904	$9,921

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 and commercial real estate loan segments are impacted by non-owner occupied CRE loans, which include loans secured by non-owner occupied nonfarm nonresidential properties, as a meaningful but closely monitored 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.

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,

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR LOAN LOSSES (continued)

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 Assigned Risk 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.

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.

57

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR LOAN LOSSES (continued)

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.

	AT DECEMBER 31, 2016				
	IMPAIRED LOANS WITH SPECIFIC ALLOWANCE		IMPAIRED LOANS WITH NO SPECIFIC ALLOWANCE	TOTAL IMPAIRED LOANS	
	RECORDED INVESTMENT	RELATED ALLOWANCE	RECORDED INVESTMENT	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE
	(IN THOUSANDS)				
Commercial	**$496**	**$ 496**	**$**	**$ 496**	**$ 517**
Commercial loans secured by real estate	**162**	**31**	**16**	**178**	**209**
Total impaired loans	**$658**	**$ 527**	**$ 16**	**$ 674**	**$ 726**

	AT DECEMBER 31, 2015				
	IMPAIRED LOANS WITH SPECIFIC ALLOWANCE		IMPAIRED LOANS WITH NO SPECIFIC ALLOWANCE	TOTAL IMPAIRED LOANS	
	RECORDED INVESTMENT	RELATED ALLOWANCE	RECORDED INVESTMENT	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE
	(IN THOUSANDS)				
Commercial	$4,416	$ 1,387	$	$4,416	$ 4,421
Commercial loans secured by real estate			86	86	522
Total impaired loans	$4,416	$ 1,387	$ 86	$4,502	$ 4,943

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

	YEAR ENDED DECEMBER 31,		
	2016	2015	2014
	(IN THOUSANDS)		
Average impaired balance:			
Commercial	**$ 718**	$ 1,271	$
Commercial loans secured by real estate	**356**	866	1,756

Consumer		9	
Average investment in impaired loans	**$ 1,074**	$ 2,146	$ 1,756
Interest income recognized:			
Commercial	**$ 14**	$ 10	$
Commercial loans secured by real estate	**8**	17	12
Consumer			
Interest income recognized on a cash basis on impaired loans	**$ 22**	$ 27	$ 12

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 follow bank regulatory definitions. The Special

58

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR LOAN LOSSES (continued)

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 and rating concurrence 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 2015 required 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 loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system.

	AT DECEMBER 31, 2016				
	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	TOTAL
	(IN THOUSANDS)				
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**

	AT DECEMBER 31, 2015				
	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	TOTAL
	(IN THOUSANDS)				
Commercial	$174,616	$ 1,811	$ 3,318	$ 1,321	$181,066
Commercial loans secured by real estate	416,331	3,100	2,188	18	421,637
Total	$590,947	$ 4,911	$ 5,506	$ 1,339	$602,703

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 the policy of the bank

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR LOAN LOSSES (continued)

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.

	AT DECEMBER 31, 2016	
	PERFORMING	NON-PERFORMING
	(IN THOUSANDS)	
Real estate-mortgage	**$ 244,836**	**$ 929**
Consumer	**19,872**	
Total	**$ 264,708**	**$ 929**

	AT DECEMBER 31, 2015	
	PERFORMING	NON-PERFORMING
	(IN THOUSANDS)	
Real estate-mortgage	$ 256,149	$ 1,788
Consumer	20,344	
Total	$ 276,493	$ 1,788

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.

	AT DECEMBER 31, 2016						
	CURRENT	30 59 DAYS PAST DUE	60 89 DAYS PAST DUE	90 DAYS PAST DUE	TOTAL PAST DUE	TOTAL LOANS	90 DAYS PAST DUE AND STILL ACCRUING
	(IN THOUSANDS)						
Commercial							