AMERISERV FINANCIAL INC /PA/
Form 10-Q
May 11, 2018

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

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the period ended March 31, 2018

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes x No 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 large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o
Smaller reporting company x	Emerging growth company o	

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

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

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

Class	Outstanding at May 1, 2018
Common Stock, par value $0.01	18,033,401

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Item 1. Financial Statements

AmeriServ Financial, Inc.

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

	March 31, 2018	December 31, 2017
ASSETS		
Cash and due from depository institutions	$22,798	$26,234
Interest bearing deposits	2,794	2,698
Short-term investments in money market funds	5,002	5,256
Total cash and cash equivalents	30,594	34,188
Investment securities:		
Available for sale, at fair value	132,390	129,138
Held to maturity (fair value $38,041 on March 31, 2018 and $38,811 on December 31, 2017)	38,663	38,752
Loans held for sale	843	3,125
Loans	875,249	890,032
Less: Unearned income	376	399
Allowance for loan losses	9,932	10,214
Net loans	864,941	879,419
Premises and equipment, net	12,406	12,734
Accrued interest income receivable	3,555	3,603
Goodwill	11,944	11,944
Bank owned life insurance	37,992	37,860
Net deferred tax asset	5,585	5,963
Federal Home Loan Bank stock	4,265	4,675
Federal Reserve Bank stock	2,125	2,125
Other assets	5,857	4,129
TOTAL ASSETS	$1,151,160	$1,167,655
LIABILITIES		
Non-interest bearing deposits	$179,137	$183,603
Interest bearing deposits	765,069	764,342
Total deposits	944,206	947,945
Short-term borrowings	36,895	49,084
Advances from Federal Home Loan Bank	45,969	46,229
Guaranteed junior subordinated deferrable interest debentures, net	12,927	12,923
Subordinated debt, net	7,470	7,465

Total borrowed funds	103,261	115,701
Other liabilities	7,883	8,907
TOTAL LIABILITIES	1,055,350	1,072,553
SHAREHOLDERS EQUITY		
Common stock, par value $0.01 per share; 30,000,000 shares authorized; 26,596,220 shares issued and 18,033,401 outstanding on March 31, 2018; 26,585,403 shares issued and 18,128,247 outstanding on December 31, 2017	266	266
Treasury stock at cost, 8,562,819 shares on March 31, 2018 and 8,457,156 on December 31, 2017	(78,678)	(78,233)
Capital surplus	145,739	145,707
Retained earnings	41,807	40,312
Accumulated other comprehensive loss, net	(13,324)	(12,950)
TOTAL SHAREHOLDERS EQUITY	95,810	95,102
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$1,151,160	$1,167,655

See accompanying notes to unaudited consolidated financial statements.

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AmeriServ Financial, Inc. CONSOLIDATED BALANCE SHEETS (In thousands except shares) (Unaudited) 6

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AmeriServ Financial, Inc.

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

	Three months ended March 31, 2018	2017
INTEREST INCOME		
Interest and fees on loans	$ 9,818	$ 9,556
Interest bearing deposits	4	2
Short-term investments in money market funds	43	24
Investment securities:		
Available for sale	1,029	901
Held to maturity	323	265
Total Interest Income	11,217	10,748
INTEREST EXPENSE		
Deposits	1,781	1,436
Short-term borrowings	92	19
Advances from Federal Home Loan Bank	186	162
Guaranteed junior subordinated deferrable interest debentures	280	280
Subordinated debt	130	130
Total Interest Expense	2,469	2,027
NET INTEREST INCOME	8,748	8,721
Provision for loan losses	50	225
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,698	8,496
NON-INTEREST INCOME		
Trust and investment advisory fees	2,278	2,166
Service charges on deposit accounts	383	374
Net gains on sale of loans	98	114
Mortgage related fees	39	75
Net realized gains (losses) on investment securities	(148)	27
Bank owned life insurance	132	141
Other income	853	665
Total Non-Interest Income	3,635	3,562
NON-INTEREST EXPENSE		
Salaries and employee benefits	6,093	5,948
Net occupancy expense	670	674
Equipment expense	391	419
Professional fees	1,184	1,200
Supplies, postage and freight	168	194
Miscellaneous taxes and insurance	290	294

Federal deposit insurance expense	162	160
Other expense	1,162	1,196
Total Non-Interest Expense	10,120	10,085
PRETAX INCOME	2,213	1,973
Provision for income tax expense	446	625
NET INCOME	$ 1,767	$ 1,348
PER COMMON SHARE DATA:		
Basic:		
Net income	$ 0.10	$ 0.07
Average number of shares outstanding	18,079	18,814
Diluted:		
Net income	$ 0.10	$ 0.07
Average number of shares outstanding	18,181	18,922
Cash dividends declared	$ 0.015	$ 0.015

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
COMPREHENSIVE INCOME		
Net income	$1,767	$ 1,348
Other comprehensive income (loss), before tax:		
Pension obligation change for defined benefit plan	1,044	77
Income tax effect	(219)	(27)
Unrealized holding gains (losses) on available for sale securities arising during period	(1,666)	92
Income tax effect	350	(30)
Reclassification adjustment for (gains) losses on available for sale securities included in net income	148	(27)
Income tax effect	(31)	9
Other comprehensive income (loss)	(374)	94
Comprehensive income	$1,393	$ 1,442

See accompanying notes to unaudited consolidated financial statements.

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AmeriServ Financial, Inc.

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

	Three months ended March 31, 2018	2017
OPERATING ACTIVITIES		
Net income	$1,767	$1,348
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	50	225
Depreciation expense	405	428
Net amortization of investment securities	103	126
Net realized (gains) losses on investment securities available for sale	148	(27)
Net gains on loans held for sale	(98)	(114)
Amortization of deferred loan fees	(35)	(51)
Origination of mortgage loans held for sale	(4,061)	(7,583)
Sales of mortgage loans held for sale	6,441	8,178
(Increase) decrease in accrued interest income receivable	48	(84)
Decrease in accrued interest payable	(121)	(139)
Earnings on bank owned life insurance	(132)	(141)
Deferred income taxes	447	623
Amortization of deferred issuance costs	9	10
Stock based compensation expense	32	42
Other, net	(1,410)	(233)
Net cash provided by operating activities	3,593	2,608
INVESTING ACTIVITIES		
Purchases of investment securities available for sale	(13,168)	(14,195)
Purchases of investment securities held to maturity	(855)	(6,476)
Proceeds from sales of investment securities available for sale	4,479	5,653
Proceeds from maturities of investment securities available for sale	3,695	6,570
Proceeds from maturities of investment securities held to maturity	917	375
Purchases of regulatory stock	(3,924)	(4,531)
Proceeds from redemption of regulatory stock	4,334	3,606
Long-term loans originated	(28,694)	(50,495)
Principal collected on long-term loans	44,999	37,520
Loans purchased or participated	(2,000)	(150)
Proceeds from sale of other real estate owned	12	23
Purchases of premises and equipment	(77)	(702)
Net cash provided by (used in) investing activities	9,718	(22,802)

FINANCING ACTIVITIES		
Net decrease in deposit balances	(3,739)	(3,010)
Net increase (decrease) in other short-term borrowings	(12,189)	20,922
Principal borrowings on advances from Federal Home Loan Bank	1,740	3,500
Principal repayments on advances from Federal Home Loan Bank	(2,000)	(3,000)
Purchase of treasury stock	(445)	(992)
Common stock dividends	(272)	(283)
Net cash provided by (used in) financing activities	(16,905)	17,137
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,594)	(3,057)
CASH AND CASH EQUIVALENTS AT JANUARY 1	34,188	34,073
CASH AND CASH EQUIVALENTS AT MARCH 31	$30,594	$31,016

See accompanying notes to unaudited consolidated financial statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AmeriServ Financial, Inc. (the Company) and its wholly-owned subsidiaries, AmeriServ Financial Bank (the Bank), AmeriServ Trust and Financial Services Company (the Trust Company), and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a Pennsylvania state-chartered full service bank with 15 locations in Pennsylvania. The Trust Company offers a complete range of trust and financial services and administers assets valued at $2.2 billion that are not reported on the Company s consolidated balance sheet at March 31, 2018. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

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

2. Basis of Preparation

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

For further information, refer to the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

3. Recent Accounting Pronouncements

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.

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

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AmeriServ Financial, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Recent Accounting Pronouncements (continued)

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 March 2017, the FASB issued ASU 2017-08, *Receivables Nonrefundable Fees and Other Costs (Subtopic 310-20)*. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. This Update is not expected to have a significant impact on the Company s financial statements.

4. Adoption of Accounting Standards

Effective January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers Topic 606* and all subsequent ASUs that modified ASC 606. The standard required a company to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers at the time the transfer of goods or services takes place. The Company completed an assessment of revenue streams and review of the related contracts potentially affected by the new standard and concluded that ASU 2014-09 did not materially change the method in which it recognizes revenue. Therefore, implementation of the new standard had no material impact to the measurement or recognition of revenue of prior periods. However, additional disclosures were added in the current period, which can be found in Note 5.

In January 2016, the FASB finalized ASU 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This accounting standard (a) requires separate presentation of equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) on the balance sheet and measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity s other deferred tax assets.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Adoption of Accounting Standards (continued)

The Company has adopted this standard during the reporting period. On a prospective basis, the Company implemented changes to the measurement of the fair value of financial instruments using an exit price notion for disclosure purposes included in Note 19 to the financial statements. The December 31, 2017, fair value of each class of financial instruments disclosure did not utilize the exit price notion when measuring fair value and, therefore, would not be comparable to the March 31, 2018 disclosure. The Company estimated the fair value based on guidance from ASC 820-10, Fair Value Measurements, which defines fair value as the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is no active observable market for sale information on community bank loans and, thus, Level III fair value procedures were utilized, primarily in the use of present value techniques incorporating assumptions that market participants would use in estimating fair values.

In March 2017, the FASB issued ASU 2017-07, *Compensation Retirement Benefits (Topic 715)*. The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. The Company adopted the standard on January 1, 2018, which resulted in a reclassification of $22,000 and $(62,000) from Salaries and employee benefits into Other expense on the Consolidated Statement of Operations for the periods ended March 31, 2018 and 2017, respectively. See Note 18 for additional information on the presentation of these pension cost components.

5. Revenue Recognition

Management determined that the primary sources of revenue associated with financial instruments, including interest income on loans and investments, along with certain noninterest revenue sources including investment security gains, loan servicing charges, gains on the sale of loans, and bank owned life insurance income are not within the scope of Topic 606. As a result, no changes were made during the period related to these sources of revenue, which cumulatively comprise 78.3% of the total revenue of the Company.

Noninterest income within the scope of Topic 606 are as follows:

Trust and investment advisory fees Trust and investment advisory income is primarily comprised of fees earned from the management and administration of trusts and customer investment portfolios. The Company s performance obligation is generally satisfied over a period of time and the resulting fees are billed monthly or quarterly, based upon the month end market value of the assets under management. Payment is generally received after month end through a direct charge to customers accounts. Other performance obligations (such as delivery of account statements to customers) are generally considered immaterial to the overall transactions price. Commissions on transactions are recognized on a trade-date basis as the performance obligation is satisfied at the point in time in which the trade is processed.

Service charges on deposit accounts The Company has contracts with its deposit account customers where fees are charged for certain items or services. Service charges include account analysis fees, monthly service fees, overdraft fees, and other deposit account related fees. Revenue related to account analysis fees and service fees is recognized on a monthly basis as the Company has an unconditional right to the fee consideration. Fees attributable to specific performance obligations of the Company (i.e. overdraft fees, etc.) are recognized at a defined point in time based on completion of the requested service or transaction.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

5. Revenue Recognition (continued)

Other noninterest income Other noninterest income consists of other recurring revenue streams such as commissions for the sale of mutual funds, annuities, and life insurance products, safe deposit box rental fees, gain (loss) on sale of other real estate owned and other miscellaneous revenue streams. Commissions on the sale of mutual funds, annuities, and life insurance products are recognized when sold, which is when the Company has satisfied its performance obligation. Safe deposit box rental fees are charged to the customer on an annual basis and recognized when billed. However, if the safe deposit box rental fee is prepaid (i.e. paid prior to issuance of annual bill), the revenue is recognized upon receipt of payment. The Company has determined that since rentals and renewals occur consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation. Gains and losses on the sale of other real estate owned are recognized at the completion of the property sale when the buyer obtains control of the real estate and all the performance obligations of the Company have been satisfied.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three months ended March 31, 2018 and 2017 (in thousands).

	Three months ended March 31,	
	2018	2017
Noninterest income:		
In-scope of Topic 606		
Trust and investment advisory fees	$ 2,278	$ 2,166
Service charges on deposit accounts	383	374
Other	566	540
Noninterest income (in-scope of topic 606)	3,227	3,080
Noninterest income (out-of-scope of topic 606)	408	482
Total noninterest income	$ 3,635	$ 3,562

6. Earnings Per Common Share

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are excluded for earnings per share purposes. The Company had no options to purchase common shares excluded from the computation of diluted earnings per common share, since all option exercise prices were below the average closing price for both the first quarter of 2018 and 2017.

	Three months ended March 31,

	2018	2017
	(In thousands, except per share data)	
Numerator:		
Net income	$ 1,767	$ 1,348
Denominator:		
Weighted average common shares outstanding (basic)	18,079	18,814
Effect of stock options	102	108
Weighted average common shares outstanding (diluted)	18,181	18,922
Earnings per common share:		
Basic	$ 0.10	$ 0.07
Diluted	0.10	0.07

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AmeriServ Financial, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7. 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 no income tax payments in the first three months of 2018 and $3,000 in the same 2017 period. The Company made total interest payments of $2,590,000 in the first three months of 2018 compared to $2,166,000 in the same 2017 period. The Company had $158,000 non-cash transfers to other real estate owned (OREO) in the first three months of 2018 compared to $20,000 non-cash transfers in the same 2017 period.

8. Investment Securities

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

Investment securities available for sale (AFS):

	March 31, 2018			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Agency	$ 6,821	$	$ (166)	$ 6,655
US Agency mortgage-backed securities	82,648	396	(1,498)	81,546
Taxable municipal	8,929	8	(347)	8,590
Corporate bonds	35,922	254	(577)	35,599
Total	$ 134,320	$ 658	$ (2,588)	$ 132,390

Investment securities held to maturity (HTM):

	March 31, 2018			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Agency mortgage-backed securities	$ 8,809	$ 99	$ (157)	$ 8,751
Taxable municipal	23,813	69	(590)	23,292
Corporate bonds and other securities	6,041	33	(76)	5,998
Total	$ 38,663	$ 201	$ (823)	$ 38,041

Investment securities available for sale (AFS):

	December 31, 2017			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Agency	$ 6,612	$	$ (40)	$ 6,572
US Agency mortgage-backed securities	79,854	611	(719)	79,746
Taxable municipal	7,198	27	(189)	7,036
Corporate bonds	35,886	322	(424)	35,784
Total	$ 129,550	$ 960	$ (1,372)	$ 129,138

Investment securities held to maturity (HTM):

	December 31, 2017			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Agency mortgage-backed securities	$ 9,740	$ 149	$ (45)	$ 9,844
Taxable municipal	22,970	203	(238)	22,935
Corporate bonds and other securities	6,042	38	(48)	6,032
Total	$ 38,752	$ 390	$ (331)	$ 38,811

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

8. Investment Securities (continued)

Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investor's Service or Standard & Poor's rating of A. At March 31, 2018, 57.4% of the portfolio was rated AAA as compared to 57.8% at December 31, 2017. Approximately 9.4% of the portfolio was either rated below A or unrated at March 31, 2018 as compared to 9.7% at December 31, 2017.

The Company sold $4.5 million AFS securities in the first quarter of 2018 resulting in $148,000 of gross investment security losses and sold $5.7 million AFS securities in the first three months of 2017 resulting in $27,000 of gross investment security gains.

The book value of securities, both available for sale and held to maturity, pledged to secure public and trust deposits was $115,980,000 at March 31, 2018 and $117,181,000 at December 31, 2017.

The following tables present information concerning investments with unrealized losses as of March 31, 2018 and December 31, 2017 (in thousands):

Total investment securities:

	March 31, 2018					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Agency	$6,005	$(165)	$400	$(1)	$6,405	$(166)
US Agency mortgage-backed securities	51,033	(985)	17,925	(670)	68,958	(1,655)
Taxable municipal	18,562	(412)	8,431	(525)	26,993	(937)
Corporate bonds and other securities	15,181	(233)	13,635	(420)	28,816	(653)
Total	$90,781	$(1,795)	$40,391	$(1,616)	$131,172	$(3,411)

Total investment securities:

	December 31, 2017					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

US Agency	$5,923	$(39)	$399	$(1)	$6,322	$(40)
US Agency mortgage-backed securities	36,783	(253)	22,625	(511)	59,408	(764)
Taxable municipal	8,657	(109)	7,727	(318)	16,384	(427)
Corporate bonds and other securities	7,123	(71)	13,655	(401)	20,778	(472)
Total	$58,486	$(472)	$44,406	$(1,231)	$102,892	$(1,703)

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 190 positions that are considered temporarily impaired at March 31, 2018. 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.

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8. Investment Securities (continued)

Contractual maturities of securities at March 31, 2018 are shown below (in thousands). Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. The weighted average duration of the total investment securities portfolio at March 31, 2018 is 46.9 months and is higher than the duration at December 31, 2017 which was 44.3 months. The duration remains within our internal established guideline range of 24 to 60 months which we believe is appropriate to maintain proper levels of liquidity, interest rate risk, market valuation sensitivity and profitability.

Total investment securities:

	March 31, 2018			
	Available for sale		Held to maturity	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Within 1 year	$ 400	$ 400	$ 2,000	$ 1,983
After 1 year but within 5 years	14,019	13,920	2,671	2,610
After 5 years but within 10 years	47,258	46,766	14,441	14,200
After 10 years but within 15 years	26,940	26,332	14,789	14,556
Over 15 years	45,703	44,972	4,762	4,692
Total	$ 134,320	$ 132,390	$ 38,663	$ 38,041

9. Loans

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

	March 31, 2018	December 31, 2017
Commercial	$ 158,776	$ 159,192
Commercial loans secured by real estate	451,787	463,780
Real estate mortgage	244,322	247,278
Consumer	19,988	19,383
Loans, net of unearned income	$ 874,873	$ 889,633

Loan balances at March 31, 2018 and December 31, 2017 are net of unearned income of $376,000 and $399,000, respectively. Real estate-construction loans comprised 3.8% and 4.1% of total loans, net of unearned income at March 31, 2018 and December 31, 2017, respectively.

10. Allowance for Loan Losses

The following tables summarize the rollforward of the allowance for loan losses by portfolio segment for the three month periods ending March 31, 2018 and 2017 (in thousands).

	Three months ended March 31, 2018				
	Balance at December 31, 2017	Charge-Offs	Recoveries	Provision (Credit)	Balance at March 31, 2018
Commercial	$ 4,299	$	$ 1	$ (316)	$ 3,984
Commercial loans secured by real estate	3,666	(162)	11	35	3,550
Real estate mortgage	1,102	(114)	19	260	1,267
Consumer	128	(99)	12	101	142
Allocation for general risk	1,019			(30)	989
Total	$ 10,214	$ (375)	$ 43	$ 50	$ 9,932

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10. Allowance for Loan Losses (continued)

	Three months ended March 31, 2017 Balance at December 31, 2016	Charge-Offs	Recoveries	Provision (Credit)	Balance at March 31, 2017
Commercial	$ 4,041	$	$ 7	$ (24)	$ 4,024
Commercial loans secured by real estate	3,584	(14)	2	175	3,747
Real estate mortgage	1,169	(94)	66	26	1,167
Consumer	151	(63)	19	42	149
Allocation for general risk	987			6	993
Total	$ 9,932	$ (171)	$ 94	$ 225	$ 10,080

The Company recorded a $50,000 provision for loan losses in the first quarter of 2018 compared to a $225,000 provision for loan losses in the first quarter of 2017. The lower 2018 provision reflects our overall strong asset quality, the successful workout of several criticized loans, and reduced loan portfolio balances. The Company experienced net loan charge-offs of $332,000, or 0.15% of total loans, in 2018 compared to net loan charge-offs of $77,000, or 0.04% of total loans, in 2017. Overall, the Company continued to maintain strong asset quality as its nonperforming assets totaled $2.2 million, or only 0.25% of total loans, at March 31, 2018. In summary, the allowance for loan losses provided 460% coverage of non-performing assets, and 1.14% of total loans, at March 31, 2018, compared to 337% coverage of non-performing assets, and 1.15% of total loans, at December 31, 2017.

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

Loans:	At March 31, 2018 Commercial	Commercial Loans Secured by Real Estate	Real Estate Mortgage	Consumer	Allocation for General Risk	Total
Individually evaluated for impairment	$ 913	$ 13	$	$		$ 926
Collectively evaluated for impairment	157,863	451,774	244,322	19,988		873,947
Total loans	$ 158,776	$ 451,787	$ 244,322	$ 19,988		$ 874,873
Allowance for loan losses:						

Specific reserve allocation	$835	$	$	$	$	$835
General reserve allocation	3,149	3,550	1,267	142	989	9,097
Total allowance for loan losses	$3,984	$3,550	$1,267	$142	$ 989	$9,932

	At December 31, 2017					
Loans:	Commercial	Commercial Loans Secured by Real Estate	Real Estate Mortgage	Consumer	Allocation for General Risk	Total
Individually evaluated for impairment	$1,212	$547	$	$		$1,759
Collectively evaluated for impairment	157,980	463,233	247,278	19,383		887,874
Total loans	$159,192	$463,780	$247,278	$19,383		$889,633
Allowance for loan losses:						
Specific reserve allocation	$909	$	$	$	$	$909
General reserve allocation	3,390	3,666	1,102	128	1,019	9,305
Total allowance for loan losses	$4,299	$3,666	$1,102	$128	$1,019	$10,214

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AmeriServ Financial, Inc.

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10. Allowance for Loan Losses (continued)

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

Management evaluates for possible impairment any individual loan in the commercial or commercial real estate segment with a loan balance in excess of $100,000 that is in nonaccrual status or classified as a Troubled Debt Restructure (TDR). Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Company does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a TDR.

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

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

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

the passage of time;
the volatility of the local market;
the availability of financing;

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10. Allowance for Loan Losses (continued)

- 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.

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

	March 31, 2018				
	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
Commercial	$ 902	$ 835	$ 11	$ 913	$ 922
Commercial loans secured by real estate			13	13	35
Total impaired loans	$ 902	$ 835	$ 24	$ 926	$ 957

	December 31, 2017				
	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
Commercial	$ 1,201	$ 909	$ 11	$ 1,212	$ 1,215
Commercial loans secured by real estate			547	547	600
Total impaired loans	$ 1,201	$ 909	$ 558	$ 1,759	$ 1,815

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AmeriServ Financial, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

10. Allowance for Loan Losses (continued)

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

	Three months ended March 31, 2018	2017
Average loan balance:		
Commercial	$ 1,063	$ 490
Commercial loans secured by real estate	280	176
Average investment in impaired loans	$ 1,343	$ 666
Interest income recognized:		
Commercial	$ 8	$ 6
Commercial loans secured by real estate		2
Interest income recognized on a cash basis on impaired loans	$ 8	$ 8

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

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process, which dictates that, at a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of $250,000 within a 12-month period. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, delinquency, or death occurs to raise awareness of a possible credit event. The Company s commercial relationship managers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. Risk ratings are assigned by the account officer, but require independent review from the Company s internal Loan Review Department. The Loan Review Department is an experienced independent function which reports directly to the Board s Audit Committee. The scope of commercial portfolio coverage by the Loan Review Department is defined and presented to the Audit Committee for approval on an annual basis. The approved scope of coverage for 2018 requires review of a minimum range of 50% to 55% of the commercial loan portfolio.

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

10. Allowance for Loan Losses (continued)

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

	March 31, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 153,689	$ 2,140	$ 2,704	$ 243	$ 158,776
Commercial loans secured by real estate	441,330	10,112	332	13	451,787
Total	$ 595,019	$ 12,252	$ 3,036	$ 256	$ 610,563

	December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 153,728	$ 2,175	$ 2,759	$ 530	$ 159,192
Commercial loans secured by real estate	452,740	10,153	874	13	463,780
Total	$ 606,468	$ 12,328	$ 3,633	$ 543	$ 622,972

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

	March 31, 2018	
	Performing	Non-Performing
Real estate mortgage	$ 243,259	$ 1,063
Consumer	19,988	
Total	$ 263,247	$ 1,063

	December 31, 2017	
	Performing	Non-Performing
Real estate mortgage	$ 246,021	$ 1,257
Consumer	19,383	
Total	$ 265,404	$ 1,257

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10. Allowance for Loan Losses (continued)

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

	March 31, 2018						
	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
Commercial	$158,522	$243	$	$11	$254	$158,776	$
Commercial loans secured by real estate	446,505	5,282			5,282	451,787	
Real estate mortgage	240,783	1,823	686	1,030	3,539	244,322	
Consumer	19,511	469	8		477	19,988	
Total	$865,321	$7,817	$694	$1,041	$9,552	$874,873	$

	December 31, 2017						
	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
Commercial	$159,181	$	$	$11	$11	$159,192	$
Commercial loans secured by real estate	457,722	5,238	534	286	6,058	463,780	
Real estate mortgage	243,393	2,373	671	841	3,885	247,278	
Consumer	19,262	76	45		121	19,383	
Total	$879,558	$7,687	$1,250	$1,138	$10,075	$889,633	$

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

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

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

The Company uses a comprehensive methodology and procedural discipline to maintain an ALL to absorb inherent losses in the loan portfolio. The Company believes this is a critical accounting policy since it involves significant estimates and judgments. The allowance consists of three elements: 1) an allowance established on specifically identified problem loans, 2) formula driven general reserves established for loan categories based upon historical loss experience and other qualitative factors which include delinquency, non-performing and TDR loans, loan trends, economic trends, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies, and trends in policy, financial information, and documentation exceptions, and 3) a general risk reserve which provides support for variance from our assessment of the previously listed qualitative factors,

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10. Allowance for Loan Losses (continued)

provides protection against credit risks resulting from other inherent risk factors contained in the Company s loan portfolio, and recognizes the model and estimation risk associated with the specific and formula driven allowances. The qualitative factors used in the formula driven general reserves are evaluated quarterly (and revised if necessary) by the Company s management to establish allocations which accommodate each of the listed risk factors.

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

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

11. Non-performing Assets Including Troubled Debt Restructurings (TDR)

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

	March 31, 2018	December 31, 2017
Non-accrual loans		
Commercial	$ 913	$ 1,212
Commercial loans secured by real estate	13	547
Real estate mortgage	1,063	1,257
Total	1,989	3,016
Other real estate owned		
Commercial	157	
Real estate-mortgage	11	18
Total	168	18
TDR s not in non-accrual		
Total non-performing assets including TDR	$ 2,157	$ 3,034
Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned	0.25 %	0.34 %

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

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

	Three months ended March 31,	
	2018	2017
Interest income due in accordance with original terms	$ 27	$ 16
Interest income recorded		
Net reduction in interest income	$ 27	$ 16

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11. Non-performing Assets Including Troubled Debt Restructurings (TDR) (continued)

Consistent with accounting and regulatory guidance, the Bank recognizes a TDR when the Bank, for economic or legal reasons related to a borrower s financial difficulties, grants a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the Bank s objective in offering a TDR is to increase the probability of repayment of the borrower s loan.

The Company had no loans modified as TDRs during the three month period ending March 31, 2018 and 2017.

In all instances where loans have been modified in troubled debt restructurings the pre- and post-modified balances are the same. The specific ALL reserve for loans modified as TDR s was $835,000 and $507,000 as of March 31, 2018 and 2017, respectively. All TDR s are individually evaluated for impairment and a related allowance is recorded, as needed.

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

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

12. Federal Home Loan Bank Borrowings

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

	At March 31, 2018		
Type	Maturing	Amount	Weighted Average Rate
Open Repo Plus	Overnight	$ 36,895	1.87 %
Advances	2018	10,000	1.52
	2019	12,500	1.51
	2020	16,729	1.74
	2021	6,000	1.90
	2022	740	2.60
Total advances		45,969	1.66

Total FHLB borrowings	$ 82,864	1.76	%

	At December 31, 2017			
Type	Maturing	Amount	Weighted Average Rate	
Open Repo Plus	Overnight	$ 49,084	1.54	%
Advances	2018	12,000	1.48	
	2019	12,500	1.51	
	2020	16,729	1.74	
	2021 and over	5,000	1.75	
Total advances		46,229	1.61	
Total FHLB borrowings		$ 95,313	1.57	%

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12. Federal Home Loan Bank Borrowings (continued)

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

13. Accumulated Other Comprehensive Loss

The following table presents the changes in each component of accumulated other comprehensive loss, net of tax, for the three months ended March 31, 2018 and 2017 (in thousands):

	Three months ended March 31, 2018			Three months ended March 31, 2017		
	Net Unrealized Gains and (Losses) on Investment Securities AFS[1]	Defined Benefit Pension Items[1]	Total[1]	Net Unrealized Gains and (Losses) on Investment Securities AFS[1]	Defined Benefit Pension Items[1]	Total[1]
Beginning balance	$(327)	$(12,623)	$(12,950)	$(171)	$(11,406)	$(11,577)
Other comprehensive income (loss) before reclassifications	(1,316)	517	(799)	62	(210)	(148)
Amounts reclassified from accumulated other comprehensive loss	117	308	425	(18)	260	242
Net current period other comprehensive income (loss)	(1,199)	825	(374)	44	50	94
Ending balance	$(1,526)	$(11,798)	$(13,324)	$(127)	$(11,356)	$(11,483)

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

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the three months ended March 31, 2018 and 2017 (in thousands):

Details about accumulated other comprehensive loss components	Amount reclassified from accumulated other comprehensive loss[1] For the three months ended March 31, 2018	For the three months ended March 31, 2017	Affected line item in the consolidated statement of operations
Realized (gains) losses on sale of securities	$148	$ (27)	Net realized (gains) losses on investment securities
	(31)	9	Provision for income tax expense
	$117	$ (18)	Net of tax
Amortization of estimated defined benefit pension plan loss	$390	$ 395	Other expense
	(82)	(135)	Provision for income taxes
	$308	$ 260	Net of tax
Total reclassifications for the period	$425	$ 242	Net income

(1) Amounts in parentheses indicate credits.

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14. Regulatory Capital

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