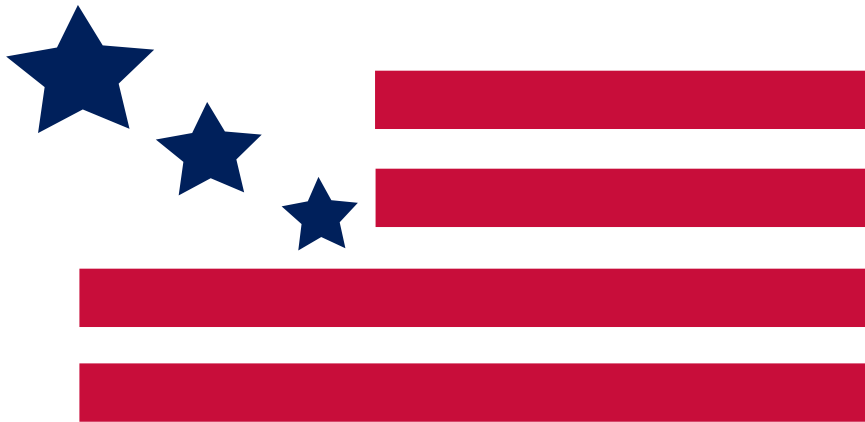


AMERISERV FINANCIAL, INC.
2018 ANNUAL REPORT



BANKING FOR LIFE

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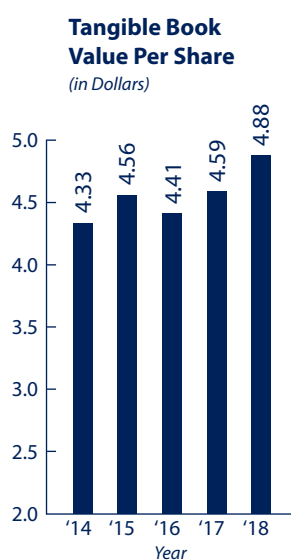
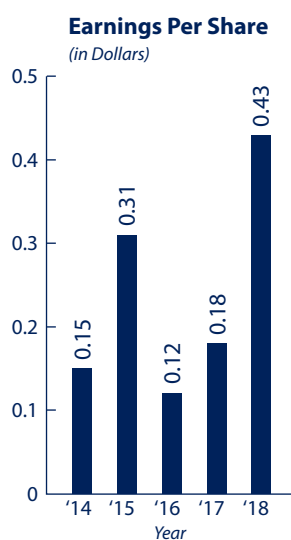
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OUR MISSION

AmeriServ Financial is committed to increasing shareholder value by striving for consistently improving financial performance; providing our customers with products and exceptional service for every step in their lifetime financial journey; cultivating an employee atmosphere rooted in trust, empowerment and growth; and serving our communities through employee involvement and a philanthropic spirit.



FINANCIAL HIGHLIGHTS



Per Share	2018	2017	Change	Change
Net Income	0.43	0.18	0.25	139%
Book Value at December 31	5.56	5.25	0.31	5.9%
Tangible Book Value at December 31	4.88	4.59	0.29	6.3%
Dividends Declared	0.075	0.06	0.015	25%
Market Value at December 31	4.03	4.15	(0.12)	(2.9%)

For the Year

(Dollars in thousands)

Net Income	\$ 7,768	\$ 3,293	\$ 4,475	136%
Return on Average Assets	0.67%	0.28%	0.39	139%
Return on Average Equity	8.08%	3.42%	4.66	136%

At Year-End

(Dollars in thousands)

Assets	\$ 1,160,680	\$ 1,167,655	\$ (6,975)	(0.6%)
Loans	863,129	892,758	(29,629)	(3.3%)
Deposits	949,171	947,945	1,226	(0.1%)
Nonperforming Loans/Total Loans	0.16%	0.34%	(0.18)	(53%)

2018 Capital Returns

(Dollars in thousands)

2018 Net Income	\$ 7,768
Common Stock Repurchase Program	2,346
Common Stock Dividend Payments	1,345
Total Capital Returned to Shareholders	\$ 3,691
% of Earnings Returned to Shareholders	47.5%

“Financial performance in 2018 was the best in 20 years, and there is great satisfaction in that.”

A MESSAGE TO OUR SHAREHOLDERS

It was a very good year for AmeriServ. As we reflect on it, 2018 offered many high points in our transformation, but none more exciting and promising than the strength of AmeriServ’s emerging position for 2019 and beyond.

Financial performance in 2018 was the best in 20 years, and there is great satisfaction in that. We were pleased to provide another year of strong capital returns to shareholders through common stock buybacks and an increased cash dividend. Yet the real satisfaction lies in the building and, in many ways, the re-building of AmeriServ to deliver the promise behind those powerful words which describe our mission – *Banking for Life*.

When we first articulated *Banking for Life* as our mission, we embraced a philosophy that reflects the company’s commitment to be a trusted resource for all our constituencies – shareholders, customers, staff and communities. AmeriServ has become a significant force in the regional economy because of our active lending programs. Our company continues month after month and year after year to provide loans to customers at 90% or more of our deposit base. These funds our friends and neighbors bring to us for safekeeping, we carefully provide to small businesses and consumers. The result is that jobs are created, homes are built, and college tuition bills are satisfied. It is part of that never-ending cycle of *Banking for Life*.

This is what focusing on that mission has taught us. We channeled economic growth, and our staff became more than just bankers. But now we face a new challenge. During 2018, we began to test whether *Banking for Life* is portable. We have taken this very positive program and made it part of Hagerstown, Maryland. It is a vibrant region, and we will set out once again to attract local deposits. And we will seek again to make those local deposits available to local small businesses and local consumers. We will put in place the dynamics to create jobs, to build better lives; for our purpose in *Banking for Life* is to build better communities. This test of the portability of our business model and mantra is what makes the actions of 2018 of even greater significance for 2019 and beyond.

Concurrently in our wealth management activities, we are serving another facet of *Banking for Life*. We are extending our expertise in managing money to Hagerstown, and to our new wealth management office in Greensburg. More than half of the assets now being managed by our wealth management professionals are retirement savings, a testament to how our advisors are easing worry and concern and replacing them with sound retirement planning. In 2018, our wealth management group had its most successful year in almost 20 years.

Simply put, our plan is to recognize the needs that *Banking for Life* must satisfy and deliver them. Our job is to meet these needs efficiently and effectively while being paid a fair price for providing solutions.



This means maintaining a safe and sound enterprise. It means recruiting and training financial professionals who are natural problem solvers. And it means having the best technology available so that these professionals can help their clients.

This is a positive message, grounded in insight and understanding. We recognize our nation's challenges and the impact global and political pressures have on community banks such as AmeriServ. Our responsibility is to employ our energy and our expertise to be part of a positive economic engine that makes us stronger – as a region and as a nation.

We appreciate your expression of support in owning a part of this franchise and we are pleased to tell you that AmeriServ is safe, sound and strong. We are also pleased to report that AmeriServ has just completed its most successful year in the last 20 years. But those are not enough. The future of this franchise is dependent on serving our customers and communities. Let the mega banks focus on the very different ways they see their markets. If we can make *Banking for Life* resonate wherever the AmeriServ sign hangs, then we will fulfill our mission, and you will be pleased to be one of our investors.

Finally, it is with great pleasure that we acknowledge Craig Ford who has served as Chairman of the Board of AmeriServ Financial from 2002 until January of this year. Craig assumed his role as Chairman at a time when this company's future was very much in doubt. With his leadership and support, and the hard work of many employees, your company is now strong and growing and serving the needs of our loyal customers. We are fortunate that Craig has agreed to serve as Vice Chairman and we will continue to benefit from his experience and wisdom.

Allan R. Dennison & Jeffrey A. Stopko

Allan R. Dennison, Chairman

Jeffrey A. Stopko, President & CEO

INTRODUCTION

Diversification is driving success at AmeriServ Financial.

On the balance sheet, AmeriServ can point to the development of well-diversified revenue streams in commercial and consumer lending, wealth management services and retail banking – each one a significant contributor to the creation of value for our shareholders.

But the term has meaning on many fronts, and AmeriServ has put it into play in a variety of ways.

The company is more geographically diverse than ever before, expanding into nearby markets like Pittsburgh, Greensburg and, most recently, Hagerstown – a former Loan Production Office that has been converted to a full-service banking center. This regionalization of the bank extends our brand, our services and our opportunities into areas ripe for growth.

Our product and service offerings, too, have become more diverse. We look for new ways to serve our customers through innovative paths-to-market to enhance our positioning. Affinity group mortgage and loan programs along with ERECT Funds investments are two of the ways we've broadened our offerings and expanded our customer base.

Finally, our omnichannel presence in mobile, online, ATM, financial banking centers and traditional branches has provided the diversification necessary to deliver our *Banking for Life* approach to our growing customer segments and their shifting needs.

AmeriServ is growing on a new, more diverse concept of community banking, and it has taken hold with success.



In 2018, AmeriServ invested in new and improved apps for consumer and business banking customers.



Consumer App



Business App



Wealth Management Client Portal

TECHNOLOGY

AmeriServ continues in a multi-year digital bank transformation, putting the bank in a very competitive position with banks many times our size. The technology strategy is designed to drive cost and complexity out of the banking equation while maximizing the service options and avenues for interaction with the customer – at the branch, online, via ATM or mobile.

As a part of the new core processor contract – which will save the company approximately \$600,000 over its seven-year term – AmeriServ converted its full internet banking platform to a leading-edge feature and function-rich environment that raises the bar on our business and retail products.

Business banking customers now have access to an integrated business app which allows them to interact with and control their operating accounts and other services on a round-the-clock basis. A new, outsourced ACH solution has also been initiated that adds speed, automation, efficiency and tracking to the process.

Consumer e-banking customers have access to a new app that enables them to make remote deposits while having full, 24-hour access to accounts. In fact, mobile banking activity continued to gain momentum throughout the year and now accounts for more than 30 percent of online banking activity.

Customer convenience options extend beyond that of the bank's retail franchise and onto the AmeriServ Trust and Financial Services Company who also introduced an app during the year. This new digital feature allows for a heightened level of account access and provides account holders with the ability to monitor account balance information at their fingertips.

AmeriServ is also modernizing its account opening processes by launching online account opening in the second quarter of 2019 that will extend its reach

beyond its branch network. Also, during the second quarter, branch staff will benefit from the introduction of the "New Account Desk" platform which will simplify and streamline the account opening process, enable electronic signatures, allow for emailed documents resulting in a quicker workflow, and identify more account options for a proactive approach to customer service.

Cybersecurity plays a critical role in AmeriServ's strategic development and implementation of technology. The company uses a layered approach to cybersecurity with an overlapping strategy based on security tools, people, and processes. AmeriServ has implemented a Cybersecurity Steering Committee to oversee the Cybersecurity Action Team and provide guidance and direction in the mitigation of cyber risks for both AmeriServ and our customers.

AmeriServ uses the national Federal Financial Institutions Examination Council (FFIEC) Cybersecurity Assessment Tool to determine an Inherent Risk Profile and assess it against a Cybersecurity Maturity rating. The bank also initiated both an annual employee training program and an internal email and internet access protocol which guard against outside cyber threats. The result is a solid, multi-layered platform of cybersecurity that integrates seamlessly with AmeriServ's technology.

With all of that said, we believe banking is still a people business and must offer a variety of banking channels to meet customers' changing needs and lifestyles. Successful banking now – and in the future – needs both people and technology to do the job well, efficiently and to the satisfaction of the customer. *Banking for Life* brings it all together in an accessible environment that uses technology to open new pathways to financial security for every stage of life.



Commercial Lending Senior Vice President and Area Executive Wayne Kessler meets with a client in our Downtown Johnstown office.

COMMERCIAL BANKING

Banking for Life strategically supports and responds to the changing demands of business and how they impact markets, workforces, real estate and communities.

It works like this: Put commercial banking and business services together to fund, fuel and sustain a diversified business base across multiple geographies. Then connect them with a broad and deep profile of additional financial services that coordinate with wealth management, retail banking, round-the-clock access and the expertise of financial professionals for a seamless, success-oriented business model.

State College and Hagerstown are prime examples of this model in progress. Both markets have produced accelerated growth in commercial lending, providing outstanding diversity in a high-quality, low-risk portfolio that's rated in the top 10% of all peer banks nationwide. With the expansion of the Hagerstown Loan Production Office into a full-service AmeriServ financial center, both centers, along with University Heights, are now primed to deliver a full complement of financial support services to new consumer and business customers under one roof.

During the year, AmeriServ continued its active regional lending posture with strong commercial origination in the bank's largest growth markets – Pittsburgh, Hagerstown, State College and Altoona – and with a number of clients out-of-state, including in Ohio, West Virginia, Virginia, Maryland and New Jersey. The success of commercial lending has been built on an expanding level of professional expertise in the targeted growth regions, allowing the bank to be extremely responsive and financially competitive.

“The business services division has also geared up for a new level of competitiveness, providing expanded products normally seen from banks multiple times the size of AmeriServ.”

The business services division has also geared up for a new level of competitiveness, providing expanded products normally seen from banks multiple times the size of AmeriServ. A major effort to convert business accounts and services to the new technology platform now supports leading-edge functionality for clients (single sign-on; ACH debits & controls, remote deposit capture, positive pay fraud avoidance, etc.). A restructuring of fees has also honed AmeriServ competitiveness.

With the expansion into the Hagerstown market well underway, the portability of business services to new markets and out-of-state customers is being proven. Future success will focus on developing these growth markets with more experienced commercial lending and business services professionals delivering greater market share.

WEALTH MANAGEMENT

During 2018, AmeriServ Trust & Financial Services Company reported record revenues, record earnings and a record number of clients, built on a growing number of credentialed professionals, active participation in the Bank's financial center strategy, the opening of a new wealth management office in Greensburg, the designation of another within our Monroeville Loan Production Office, and sophisticated new products and services added to the company's offerings.

One of the most successful additions has been the *Income for Life*® planning tool which exemplifies AmeriServ's *Banking for Life* philosophy. The tool allows AmeriServ professionals to quickly assess and personalize the retirement outlook for any individual at virtually any net worth or stage in life. Using *Income for Life*, a professional can calculate a retirement "score" number and create a customized plan for an investor. This model has already yielded significant returns and produced customer engagement above expectations. As a new core offering, it supports a long-term strategy of placing AmeriServ professionals in front of clients with an accessible, easily-understood retirement overview to open an important discussion and contribute to solving the nation's pending retirement crisis.

The Trust & Financial Services Company figures prominently into the expansion of AmeriServ due, in part, to the ability to achieve growth with limited capital investment and limited risk. This has made the wealth management group very scalable and positioned for unlimited growth potential in new and developing markets. It also plays well into the regionalization of the Bank as a multi-state entity with no real barriers to crossing state lines.

Another significant contributor to the group's revenue continues to be the Employee Real Estate Construction Trust (ERECT) Funds, for which AmeriServ is the trustee. This is a unique pension fund-based investment engine. It invests union pension funds in real estate projects that utilize 100% union construction, yielding solid rates of return as well as union job-hour guarantees. The unseen statistic is that up to an estimated 15 cents of every dollar paid in union benefits and wages is added to the pensions, which creates better funded pensions and an expanded source for new ERECT Funds investments.

During the year, the ERECT Funds approved \$25 million in new funding for five new investment projects. The resulting investments will be leveraged to \$170 million in 100% union projects.



One notable ERECT Funds project, the \$210 million, 20-acre *3 Crossings* development in Pittsburgh's Strip District neighborhood, was presented with the 2018 NAIOP Award for the "Best Mixed-Use" category. The commercial real estate development association cited the project's transformation of former trucking yards into a sustainable neighborhood of the future, reconnecting the community to a revitalized riverfront and Pittsburgh's Three Rivers Trail network.

The Fund has also been actively expanding its geographic focus beyond Pennsylvania and Northeastern Ohio. The portability of the model has allowed the Fund to approach markets in union-friendly geographies like Columbus, Ohio and beyond. It has also expanded its product offering to include equity investments, mezzanine and subordinate debt and bridge loans.

Since inception, 100 ERECT Funds projects have delivered nearly \$2 billion in project costs on just \$500 million in fund investments. In turn, those projects have generated more than 12 million union job hours with over \$664 million paid in wages and benefits.

AmeriServ opens a new wealth management office in Greensburg with a ribbon cutting ceremony.

**THE
ERECT
FUNDS**
Employee Real Estate
Construction Trust Funds

The 3 Crossings development was presented with an NAIOP Award in 2018.





RETAIL BANKING

AmeriServ's retail banking customers were given four new reasons to embrace the *Banking for Life* philosophy in 2018, with the bank's first major account overhaul in a generation. Four simple-to-understand, well-targeted lifestyle checking accounts were created to replace a legacy jumble of account types grandfathered in over years of selective addition. The move cut inefficiencies and raised fee income, all while supporting a deposit strategy designed to increase deposit balances with the prospect of a monthly fee waiver for positive account actions.

Twenty-seven thousand customer accounts were converted into one of four *Banking for Life* accounts – SimpleLife, ActiveLife, ComfortLife, and StudentLife. Each account provides targeted services appropriate for a particular stage in life with ComfortLife topping out as the top tier of banking services. Results have performed above expectations with few accounts lost and a high degree of customer satisfaction.

The new accounts mesh perfectly with plans to begin supporting customers who want to open their own accounts online in the second quarter of 2019. Customers who prefer online banking will be able to easily open a checking account, a savings account

and even a CD product online without the need to come into a branch office. This dramatically extends the ability of AmeriServ to serve clients beyond the traditional branch footprint.

Our branches remain an integral part of AmeriServ's omnichannel network of ATM, online, mobile, and direct customer services. In late 2018, we opened our newest financial center and our first out-of-state branch in Hagerstown. Based on the success of our long-standing LPO in Hagerstown, the bank now provides a full range of business and personal banking and wealth management under one roof. As a now-proven concept, our new financial centers (University Heights, State College and Hagerstown) bring increased efficiency, a heightened sense of personal customer engagement and the bank-wide benefits of cross-selling products and services to our communities. It also enables commercial loan customers from our former LPO in Hagerstown to bring operating accounts and employee-oriented programs to AmeriServ and our new branch presence.

AmeriServ's newest financial banking center and first out-of-state branch in Hagerstown.

RETAIL LENDING

Retail lending is a cornerstone of community banking. As an active lender and a full participant in our markets' economic energy, AmeriServ maintained an investment of more than \$250 million in residential mortgages, home equity lines and consumer loans in 2018. It fits hand-in-glove with our business philosophy of *Banking for Life* – covering everything from a starter home, to a growing family's residence, to a comfortable retirement. This year, our retail lending, combined with commercial lending, kept more than 92% of our customers' deposited funds in a high-quality community loan portfolio.

With Fed rates rising, refinancing has settled out, leaving home purchases and construction loans as the primary drivers of mortgage lending. AmeriServ's strategy of geo-diversification, especially in Pittsburgh, State College and the new Hagerstown markets, puts the bank's lending power into vibrant growth markets where population density is greater, home values are higher and real estate turnover rates are driven by more transient populations. In this economy, the bank has reinstated fixed-rate construction loans as rates rise and new housing starts approach pre-recession levels.

A major differentiator for the bank is AmeriServ's PSEA (Pennsylvania State Education Association) initiative. This teachers' union-focused relationship has AmeriServ as the exclusive, state-wide endorsed provider for PSEA member mortgages, Loan in a Line home equity and personal loan products. Strategically, the PSEA initiative contributes to the diversification of the loan portfolio by opening markets across Pennsylvania and spreading risk into more affluent and growing areas beyond AmeriServ's traditional footprint. Acceptance has grown significantly in the past few years, and AmeriServ has now originated more than \$90 million in loans to PSEA members. As retail ebanking and remote account opening come online, AmeriServ will be able to offer established PSEA loan customers across the state other banking services as well. With more than 180,000 union members, PSEA continues to be a growing stream of revenue for AmeriServ.



“A major differentiator for the bank is AmeriServ’s PSEA (Pennsylvania State Education Association) initiative. This teachers’ union-focused relationship has AmeriServ as the exclusive, state-wide endorsed provider for PSEA member mortgages, Loan in a Line home equity and personal loan products.”

The fundamentals of the PSEA initiative can be replicated, and AmeriServ continues to explore its union-friendly relationships to leverage additional union-related revenue streams through the expansion of affinity group mortgages, home equity and consumer loans.



AmeriServ provides funding for all of life's moments, like a family vacation, college tuition or home improvements.



Chief Financial and Investment Officer and Chief Risk Officer Mike Lynch presents the AmeriServ Halloween Coloring Contest (age group 9-12) winner Skyler Wilson (right) with a prize. Her sister, Brittany (left), was happy to tag along.



President & CEO Jeff Stopko with Guila Vello, the winner of the AmeriServ Halloween Coloring Contest

COMMUNITY

AmeriServ's community service took new directions in 2018. In addition to civic pride and long-standing support for employee volunteer activities, the bank brought in a fresh look at opportunities in which to better serve local communities.

AmeriServ Seminar Series

Regionally, AmeriServ promoted a new public education series focused on attendees gaining a better understanding of finances in the everyday world. The **AmeriServ Seminar Series** was created to leverage the bank and its resources as an education and information leader within the community. Three seminars were offered in the Series' inaugural season, each targeted to a special audience segment from the community:

- **Six Keys to Financial Empowerment**
A seminar focused on women and the unique financial challenges they face at various stages of life.
- **Elder Abuse and Prevention**
A senior-oriented seminar geared toward educating attendees about the threat of fraud directed at the elder community.
- **Preventing Identity Theft**
A practical how-to on strategies and simple actions to protect any vulnerable citizen from identity theft and its impact on social security, bank accounts, and credit cards.

The Series was both well-received and well-attended. Plans are to continue the series in 2019.

Banking for Life to the Rescue

When another community bank closed its office and moved its operations 12 miles away, an entire older community was potentially left without local service.

AmeriServ saw both opportunity and obligation and waged a full-scale campaign to extend our *Banking for Life* community banking to those who were recently displaced. Through dedicated efforts of our staff, AmeriServ was able to quickly on-board some of the local residents into AmeriServ accounts at our nearby Seward branch. In addition, we were able to extend our omnichannel services via mobile, online and ATM banking to enhance the service and reach for the community.

Spooktacular Sponsorship

When thousands of zombies, ghosts and goblins line the streets with their families, it can only be one thing, the **AmeriServ Johnstown Halloween Parade**. The 2018 edition was the 50th annual gathering along Main Street, sponsored for the third year in a row by AmeriServ.

A community favorite, the parade featured 133 units backed by more than 50 employee volunteers from AmeriServ. As if the entertainment and treats weren't enough, AmeriServ also sponsored a children's coloring contest in which the winners would receive a prize and a front row seat at the parade. More than 200 entries were received, and the winners were pleased.

“In 2018, employees raised \$5,000 for local non-profit organizations through Business Casual Day fundraisers alone.”

Employee Volunteer Opportunities

When AmeriServ employees are given the opportunity to become involved with their communities, they respond in great numbers. In 2018, employees raised \$5,000 for local non-profit organizations through Business Casual Day fundraisers alone. Slots for these days are filled in advance by employees looking to help their favorite charity while being comfortable at work.

In addition, many employees serve or play an active role on boards and committees of local non-profits like The Community Foundation for the Alleghenies, Beginnings, Inc., The Women’s Help Center, Blair Health Choices, Arsenal Family and Children Center and the Boys and Girls Club of Washington County to name a few.

AmeriServ donated more than \$125,000 in 2018 to 210 organizations and volunteered more than 2,500 hours of time in local communities. The amount of community corporate sponsorships for events and annual fundraisers continues to grow each year. In addition to being the title sponsor of the AmeriServ Flood City Music Festival, the AmeriServ Summer Concert Series at the Roxbury Bandshell and the AmeriServ Johnstown Halloween Parade, the Bank sponsors many other philanthropic events like the Taunia Oechslein Girls Night Out, The Red Cross Gala and the American Heart Association Heart Ball.



AmeriServ employees gave monetary and food donations to the St. Vincent de Paul Family Kitchen.

BRANCH LOCATIONS

Carrolltown

101 S. Main Street
Carrolltown, PA 15722

Central City

104 Sunshine Avenue
Central City, PA 15926

Derry

112 S. Chestnut Street
Derry, PA 15627

Downtown Johnstown

216 Franklin Street
Johnstown, PA 15901

East Hills Drive Up

1213 Scalp Avenue
Johnstown, PA 15904

Eighth Ward

1059 Franklin Street
Johnstown, PA 15905

Hagerstown

12806 Shank Farm Way
Hagerstown, MD 21742

Lovell Park

179 Lovell Avenue
Ebensburg, PA 15931

Nanty Glo

1383 Shoemaker Street
Nanty Glo, PA 15943

North Atherton

1857 N. Atherton Street
State College, PA 16803

Northern Cambria

4206 Crawford Avenue, Suite 1
Northern Cambria, PA 15714

Pittsburgh

United Steelworkers Building
60 Boulevard of the Allies, Suite 100
Pittsburgh, PA 15222

Seward

1 Roadway Plaza
6858 Route 711, Suite 1
Seward, PA 15954

Somerset

108 W. Main Street
Somerset, PA 15501

University Heights

1404 Eisenhower Boulevard
Johnstown, PA 15904

Westmont

110 Plaza Drive
Johnstown, PA 15905

Windber

1501 Somerset Avenue
Windber, PA 15963

LOAN PRODUCTION OFFICES**Altoona**

Pleasant Valley Shopping Center
3415 Pleasant Valley Boulevard
Altoona, PA 16602

Wilkins Township

201 Penn Center Boulevard, Suite 200
Pittsburgh, PA 15235

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

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

OR

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. Yes No

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark 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.

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

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

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes 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 price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. The aggregate market value was \$66,908,753 as of June 30, 2018.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. There were 17,619,303 shares outstanding as of January 31, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

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

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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, 2018, the Company had, on a consolidated basis, total assets, deposits, and shareholders' equity of \$1.2 billion, \$949.2 million, and \$98.0 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 and Washington county, Maryland, 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 17 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 Wilkins Township and Altoona in Pennsylvania.

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.

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, 2018:

<u>Headquarters</u>	<u>Johnstown, PA</u>
Total Assets	\$1,145,678
Total Investment Securities	179,678
Total Loans and Loans Held for Sale (net of unearned income)	863,129
Total Deposits	949,371
Total Net Income	8,978
Asset Leverage Ratio	9.28%
Return on Average Assets	0.78
Return on Average Equity	8.80
Total Full-time Equivalent Employees	233

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 a Management Enterprise Risk Committee with Board of Director representation to help manage and monitor the Company's risk position which is reported formally to the Board on a semi-annual basis.

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. The commercial loan segment also includes commercial loans secured by owner occupied real estate. 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.

Commercial Loans Secured by Non-Owner Occupied Real Estate

This category includes various types of loans, including acquisition and construction of investment 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.

During 2018, a more robust risk management framework was developed to enhance monitoring of the non-owner occupied commercial real estate segment of the portfolio. This analysis considers more forward looking credit metrics such as stress test results and underwriting trend data, coupled with risk tolerance and concentration guidelines. The enhanced process is intended to allow identification of emerging risk in part to determine any future change to lending policy, underwriting practices or broader lending strategy prior to any indication of performance deterioration.

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. A meaningful portion of this portfolio consists of home equity loans. 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 strategic focus of the investment securities portfolio is managed for liquidity and earnings in a prudent 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, high quality corporate securities, taxable municipal securities, and agency securities. Management strives to maintain a portfolio duration that is less than 60 months. All holdings must meet standards documented in its investment policy, unless otherwise approved by the Company's CEO or the Asset/Liability Management Committee.

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,		
	2018	2017	2016
	(IN THOUSANDS)		
U.S. Agency	\$ 7,685	\$ 6,612	\$ 400
Municipal	13,301	7,198	3,793
Corporate bonds	37,359	35,886	34,403
U.S. Agency mortgage-backed securities	90,169	79,854	88,738
Total cost basis of investment securities available for sale . .	<u>\$148,514</u>	<u>\$129,550</u>	<u>\$127,334</u>
Total fair value of investment securities available for sale . .	<u>\$146,731</u>	<u>\$129,138</u>	<u>\$127,077</u>

Investment securities held to maturity at:

	AT DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS)		
Municipal	\$24,740	\$22,970	\$13,441
U.S. Agency mortgage-backed securities	9,983	9,740	11,177
Corporate bonds and other securities	6,037	6,042	6,047
Total cost basis of investment securities held to maturity . . .	<u>\$40,760</u>	<u>\$38,752</u>	<u>\$30,665</u>
Total fair value of investment securities held to maturity . . .	<u>\$40,324</u>	<u>\$38,811</u>	<u>\$30,420</u>

DEPOSITS

The Bank has a stable core deposit base made up of traditional commercial bank products that exhibits modest 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,					
	2018		2017		2016	
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Demand:						
Non-interest bearing	\$174,108	—%	\$182,301	—%	\$182,732	—%
Interest bearing	138,572	0.82	129,589	0.49	108,350	0.29
Savings	98,035	0.17	97,405	0.17	95,986	0.17
Money market	249,618	0.87	275,636	0.52	277,967	0.43
Other time	299,391	1.66	291,475	1.38	290,612	1.28
Total deposits	<u>\$959,724</u>	1.07%	<u>\$976,406</u>	0.79%	<u>\$955,647</u>	0.70%

The maturities on certificates of deposit greater than \$100,000 or more as of December 31, 2018, are as follows:

MATURING IN:	(IN THOUSANDS)
Three months or less	\$10,092
Over three through six months	9,581
Over six through twelve months	9,480
Over twelve months	5,688
Total	<u>\$34,841</u>

LOANS

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,				
	2018	2017	2016	2015	2014
	(IN THOUSANDS)				
Commercial:					
Commercial and industrial	\$158,306	\$159,219	\$171,570	\$181,117	\$139,169
Commercial loans secured by owner occupied real estate ⁽¹⁾	91,938	89,979	91,861	97,172	99,692
Commercial loans secured by non-owner occupied real estate ⁽¹⁾	356,805	374,173	355,172	324,971	311,148
Real estate – residential mortgage ⁽¹⁾	237,964	247,278	245,765	257,937	258,616
Consumer	17,591	19,383	19,872	20,344	19,009
Total loans	862,604	890,032	884,240	881,541	827,634
Less: Unearned income	322	399	476	557	554
Total loans, net of unearned income	<u>\$862,282</u>	<u>\$889,633</u>	<u>\$883,764</u>	<u>\$880,984</u>	<u>\$827,080</u>

- (1) For each of the periods presented beginning with December 31, 2018, real estate-construction loans constituted 3.5%, 4.1%, 4.7%, 3.0% and 3.5% of the Company's total loans, net of unearned income, respectively.

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,				
	2018	2017	2016	2015	2014
	(IN THOUSANDS, EXCEPT PERCENTAGES)				
Non-accrual loans:					
Commercial and industrial	\$ —	\$ 353	\$ 496	\$4,260	\$ —
Commercial loans secured by owner occupied real estate	—	859	—	—	238
Commercial loans secured by non-owner occupied real estate	11	547	178	18	37
Real estate – residential mortgage	1,210	1,257	929	1,788	1,920
Total	<u>1,221</u>	<u>3,016</u>	<u>1,603</u>	<u>6,066</u>	<u>2,195</u>
Other real estate owned:					
Commercial loans secured by owner occupied real estate	157	—	—	—	—
Commercial loans secured by non-owner occupied real estate	—	—	—	—	384
Real estate – residential mortgage	—	18	21	75	128
Total	<u>157</u>	<u>18</u>	<u>21</u>	<u>75</u>	<u>512</u>
Total restructured loans not in non-accrual (TDR)	—	—	—	156	210
Total non-performing assets including TDR	<u>\$1,378</u>	<u>\$3,034</u>	<u>\$1,624</u>	<u>\$6,297</u>	<u>\$2,917</u>
Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned	0.16%	0.34%	0.18%	0.71%	0.35%

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,				
	2018	2017	2016	2015	2014
	(IN THOUSANDS)				
Interest income due in accordance with original terms	\$75	\$103	\$118	\$94	\$136
Interest income recorded	<u>—</u>	<u>(75)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net reduction in interest income	<u>\$75</u>	<u>\$ 28</u>	<u>\$118</u>	<u>\$94</u>	<u>\$136</u>

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 \$2.1 billion that are not recognized on the Company’s balance sheet at December 31, 2018. 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, 2018, the Trust Company had total assets of \$5.4 million and total stockholder’s equity of \$5.4 million. In 2018, the Trust Company contributed earnings to the Company as its gross revenue amounted to \$9.2 million and the net income contribution was \$1.5 million. 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, 2018, AmeriServ Life had total assets of \$278,000.

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 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 decreased from a 6.1% average in 2017 to a 5.2% average in 2018. The Johnstown, PA MSA continues to have one of the highest jobless rates 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 the State College MSA decreased from a 3.7% average in 2017 to a 3.3% average in 2018 and remains 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.

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, all 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 increased from a 3.7% average in 2017 to a 4.3% average in 2018.

The Company also has loan production offices in Wilkins Township in Allegheny County and Altoona in Blair County, Pennsylvania. Wilkins Township 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 the Pittsburgh MSA decreased from a 5.0% average in 2017 to a 4.3% average in 2018.

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 decreased from a 4.8% average in 2017 to a 4.2% average in 2018.

EMPLOYEES

The Company employed 321 people as of December 31, 2018 in full- and part-time positions. Approximately 155 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, 2021. The contract calls for annual wage increases of 3.0%. The Company has not experienced a work stoppage since 1979. The Company is one of an estimated ten union represented banks nationwide.

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. Both federal and state banking regulation impose 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, 2018, the Company believes that its bank subsidiary was well capitalized, based on the prompt corrective action guidelines described above. 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 to risk-adjusted assets requirements (which includes the impact of the capital conservation buffer applicable to each year) are as follows:

	Minimum Capital		Well Capitalized
	Effective January 1,		
	2017	2018	
Common equity tier 1 capital ratio	5.75%	6.38%	6.5%
Tier 1 capital ratio	7.25%	7.88%	8.0%
Total capital ratio	9.25%	9.88%	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 above its minimum risk-based capital requirements, which increases over the transition period, from 0.625% of total risk weighted assets in 2016 to 2.50% in 2019. Implementation of the deductions and other adjustments to common equity tier 1 capital began on January 1, 2015 and were to 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). Effective January 1, 2018, the U.S. federal banking agencies issued a final rule that paused the full transition of these Basel III deduction and adjustment provisions at 80%.

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.

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. The Company maintains 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 the key processes 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

The Dodd-Frank Act was signed into law on July 21, 2010. 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.

ECONOMIC GROWTH, REGULATORY RELIEF, AND CONSUMER PROTECTION ACT

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Act"), which was designed to ease certain restrictions imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, was enacted into law on May 24, 2018. Most of the changes made by the Act can be grouped into five general areas: mortgage lending; certain regulatory relief for "community" banks; enhanced consumer protections in specific areas, including subjecting credit reporting agencies to additional requirements; certain regulatory relief for large financial institutions, including increasing the threshold at which institutions are classified a systemically important financial institutions (from \$50 billion to \$250 billion) and therefore subject to stricter oversight, and revising the rules for larger institution stress testing; and certain changes to federal securities regulations designed to promote capital formation. Some of the key provisions of the Act as it relates to community banks and bank holding companies include, but are

not limited to: (i) designating mortgages held in portfolio as “qualified mortgages” for banks with less than \$10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than \$10 billion in assets from Volcker Rule requirements relating to proprietary trading; (iii) simplifying capital calculations for banks with less than \$10 billion in assets by requiring federal banking agencies to establish a community bank leverage ratio of tangible equity to average consolidate assets not less than 8% or more than 10% and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from \$1 billion to \$5 billion in assets; and (vi) clarifying definitions pertaining to high volatility commercial real estate loans (HVCRE), which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings. Proposed regulations implementing the provisions of EGRR&CPA have been issued by the Federal Reserve Board and the FDIC, but nothing has been finalized. The Company continues to analyze the changes implemented by the Act and further rulemaking from federal banking regulators, but, at this time, does not believe that such changes will materially impact the Company’s business, operations, or financial results.

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.

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 eleven 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 September 30, 2020 to October 29, 2029.

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 DISCLOSURES

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, 2019, the Company had 2,887 shareholders of record for its common stock. The Company's common stock is traded on The NASDAQ Stock Market 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 DIVIDENDS DECLARED
	HIGH	LOW	
Year ended December 31, 2018:			
First Quarter	\$4.20	\$4.00	\$0.015
Second Quarter	4.30	4.00	0.020
Third Quarter	4.55	4.10	0.020
Fourth Quarter	4.43	3.98	0.020
Year ended December 31, 2017:			
First Quarter	\$4.00	\$3.60	\$0.015
Second Quarter	4.20	3.70	0.015
Third Quarter	4.05	3.80	0.015
Fourth Quarter	4.35	3.85	0.015

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.

On January 24, 2017, the Company's Board of Directors approved a common stock repurchase program that called for AmeriServ Financial, Inc. to buy back up to 5% or approximately 945,000 shares of its outstanding common stock over an 18 month time period beginning on the day of announcement. As of the end of the first quarter of 2018, all shares authorized under this plan had been repurchased.

On July 17, 2018, the Company announced a new program to repurchase up to 3%, or approximately 540,000 shares, of the Company's outstanding common stock during the next 12 months. Following are the Company's monthly common stock purchases during the fourth quarter of 2018. All shares are repurchased under Board of Directors authorization.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan	Maximum number of shares that may yet be purchased under the plan
October 1 – 31, 2018	35,622	\$4.34	35,622	224,699
November 1 – 30, 2018	83,068	4.35	83,068	141,631
December 1 – 31, 2018	29,320	4.20	29,320	112,311
Total	148,010		148,010	

During 2018, the Company was able to repurchase a total of 427,689 shares at an average price of \$4.45 under this repurchase program. This represents approximately 79% of the authorized repurchase plan.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA

	AT OR FOR THE YEAR ENDED DECEMBER 31,				
	2018	2017	2016	2015	2014
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)				
SUMMARY OF INCOME STATEMENT DATA:					
Total interest income	\$ 47,094	\$ 44,356	\$ 41,869	\$ 41,881	\$ 40,441
Total interest expense	11,600	8,795	7,735	6,520	6,397
Net interest income	35,494	35,561	34,134	35,361	34,044
Provision (credit) for loan losses	(600)	800	3,950	1,250	375
Net interest income after provision (credit) for loan losses	36,094	34,761	30,184	34,111	33,669
Total non-interest income	14,224	14,645	14,638	15,267	14,323
Total non-interest expense	40,936	40,766	41,615	41,038	43,371
Income before income taxes	9,382	8,640	3,207	8,340	4,621
Provision for income taxes	1,614	5,347	897	2,343	1,598
Net income	\$ 7,768	\$ 3,293	\$ 2,310	\$ 5,997	\$ 3,023
Net income available to common shareholders	\$ 7,768	\$ 3,293	\$ 2,295	\$ 5,787	\$ 2,813
PER COMMON SHARE DATA:					
Basic earnings per share	\$ 0.43	\$ 0.18	\$ 0.12	\$ 0.31	\$ 0.15
Diluted earnings per share	0.43	0.18	0.12	0.31	0.15
Cash dividends declared	0.075	0.060	0.050	0.040	0.040
Book value at period end	5.56	5.25	5.05	5.19	4.97
BALANCE SHEET AND OTHER DATA:					
Total assets	\$1,160,680	\$1,167,655	\$1,153,780	\$1,148,497	\$1,089,263
Loans and loans held for sale, net of unearned income	863,129	892,758	886,858	883,987	832,131
Allowance for loan losses	8,671	10,214	9,932	9,921	9,623
Investment securities available for sale	146,731	129,138	127,077	119,467	127,110
Investment securities held to maturity	40,760	38,752	30,665	21,419	19,840
Deposits	949,171	947,945	967,786	903,294	869,881
Total borrowed funds	108,177	115,701	78,645	117,058	93,965
Stockholders' equity	97,977	95,102	95,395	118,973	114,407
Full-time equivalent employees	303	302	305	318	314
SELECTED FINANCIAL RATIOS:					
Return on average assets	0.67%	0.28%	0.20%	0.54%	0.29%
Return on average total equity	8.08	3.42	2.30	5.10	2.61
Loans and loans held for sale, net of unearned income, as a percent of deposits, at period end	90.94	94.18	91.64	97.86	95.66
Ratio of average total equity to average assets	8.28	8.24	8.79	10.65	10.92
Common stock cash dividends as a percent of net income available to common shareholders	17.31	33.80	41.18	13.03	26.73
Interest rate spread	3.08	3.14	3.08	3.33	3.36
Net interest margin	3.31	3.32	3.26	3.49	3.52
Allowance for loan losses as a percentage of loans, net of unearned income, at period end	1.01	1.15	1.12	1.13	1.16
Non-performing assets as a percentage of loans and other real estate owned, at period end	0.16	0.34	0.18	0.71	0.35
Net charge-offs as a percentage of average loans	0.11	0.06	0.44	0.11	0.11
Cumulative one year interest rate sensitivity gap ratio, at period end	1.15	1.22	1.44	1.23	1.13

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, 2018, 2017, AND 2016

2018 SUMMARY OVERVIEW:

On January 22, 2019, AmeriServ Financial, Inc. provided its financial performance results for the fourth quarter of 2018 and consequently for the full year of 2018. Net Income for the quarter was \$1,928,000 or \$0.11 per common share. This result far exceeded the fourth quarter of 2017 which was impacted by the corporate tax reform issues pertaining to deferred tax assets.

Perhaps it is more meaningful to recognize that the full year earnings of 2018 was 139% better than 2017 with earnings per share of \$0.43, compared to \$0.18 in 2017. These are record results for AmeriServ. It is also a fact that the Tax Reform Act was an important element in these results. However, even if there had been no Tax Reform Act, 2018 would still have been the highest level of net income for AmeriServ in any year since 2000. The factors that contributed to this performance level were as follows:

In 2017, two AmeriServ Financial Banking Centers were opened which brought one-stop banking to State College, PA and to Richland Township on the hill overlooking Johnstown. In the fourth quarter of 2018, AmeriServ opened its third Financial Banking Center just over the state line in Hagerstown, Maryland. There has been an AmeriServ Loan Production Office in Hagerstown for five years. Now, with the expanded Financial Banking Center, the new center can offer residential mortgages, consumer lending, wealth management, small business banking and the latest in consumer banking to this busy community. This expansion is making the AmeriServ sign a familiar sight in a new geographic area.

Wherever that sign hangs, AmeriServ also takes its active lending programs. In 2018, AmeriServ again maintained its fifth consecutive year of lending 90% of our deposits to small and medium sized businesses and consumers throughout the region. We know that our job is to safeguard deposits, but it is also our job to lend these deposits to further expand the regional economy.

An important part of our progress in 2018 was positive activity in AmeriServ's Wealth Management Company. We are pleased that the new wealth management office in Greensburg, PA has been so well received. Particularly during times like these when the markets are so volatile, it is important that we are close to our clients. That is what "Banking for Life" promises and delivers.

We have a solid strategic plan that is being carefully executed. AmeriServ is an active lender to small and medium sized businesses and consumers. This strengthens the economy throughout the region and supports the daily lives of countless families. We also work with those same families to plan for their retirement years. We like to say AmeriServ is not a passive partner to our friends and neighbors, but an active partner in building the regional economy. Again, it's the "Banking for Life" philosophy.

Our plan for the future at AmeriServ is quite straight forward. Our plan is to maintain a conservative balance sheet, for that is the only reliable antidote to economic surprises. Our plan is also to maintain careful loan underwriting standards. Lending is a risk business and AmeriServ does not seek to bet the bank, rather AmeriServ seeks to provide funds for trustworthy and reliable borrowers of good character.

This then causes the steady improvement in the AmeriServ bottom line that permits a growth in shareholder return. It is encouraging to note that during 2018 the Return on Shareholder Equity improved from 3.42% to 8.08%. This kind of improvement is the central thrust of our strategic plan.

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,		
	2018	2017	2016
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)		
Net income	\$7,768	\$3,293	\$2,310
Diluted earnings per share	0.43	0.18	0.12
Return on average assets	0.67%	0.28%	0.20%
Return on average equity	8.08	3.42	2.30

The Company reported net income of \$7,768,000, or \$0.43 per diluted common share. This represents an improvement of \$4.5 million from the full year of 2017 where net income totaled \$3,293,000, or \$0.18 per diluted common share. This represents 139% growth in earnings per share from the full year of 2017. The Company's return on average equity improved to 8.08% for the 2018 year from 3.42% in 2017. The strong growth in earnings resulted from a favorable combination of lower income tax expense, outstanding asset quality, and well controlled non-interest expense. AmeriServ Financial achieved record earnings in 2018 while making strategic investments in the franchise that position the Company well in the rapidly changing financial services industry. The fourth quarter 2018 opening of a new financial banking center in Hagerstown, Maryland allows the Company to build upon the success of the Hagerstown commercial loan production office and now offer a full slate of banking products and wealth management services in this demographically attractive and growing market. The opening of this financial center is AmeriServ Financial, Inc.'s first move to establish a full service banking center outside of Pennsylvania. The Company also continued to improve its technology platform in 2018 with the introduction of new business and consumer internet banking packages. As noted above, the Company made meaningful progress in improving its earnings power as indicated by its increased full year earnings. Finally, the Company increased tangible book value per share by 6.3% during 2018 and returned almost 48% of net income to its shareholders through accretive common stock buybacks and an increased cash dividend.

The Company reported net income of \$3.3 million, or \$0.18 per diluted common share, for 2017. This represented a 50% increase in earnings per share from 2016 where net income totaled \$2.3 million, or \$0.12 per diluted share. In the fourth quarter of 2017, the enactment into law of "H.R.1.", known as the "Tax Cuts and Jobs Act", necessitated the revaluation of the Company's deferred tax asset because of the new lower corporate tax rate. This revaluation required that the Company recognize additional income tax expense of \$2.6 million. The additional income tax expense negatively impacted diluted earnings per share by \$0.14 for both the fourth quarter and full year of 2017.

The Company reported net income 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 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 resulted from net interest margin compression 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.

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,		
	2018	2017	2016
	(IN THOUSANDS, EXCEPT RATIOS)		
Interest income	\$47,094	\$44,356	\$41,869
Interest expense	11,600	8,795	7,735
Net interest income	35,494	35,561	34,134
Net interest margin	3.31%	3.32%	3.26%

2018 NET INTEREST PERFORMANCE OVERVIEW... The Company's net interest income for the full year of 2018 decreased by \$67,000, or 0.2%, when compared to the full year of 2017. The Company's net interest margin was 3.31% for the full year of 2018 representing a one basis point decline from the full year of 2017. The 2018 decrease in net interest income is a result of a reduced level of total average earning assets as lower total loans more than offset an increased level of total investment securities. Total average earning assets decreased modestly by \$1.4 million, or 0.1% in 2018. Specifically, total investment securities averaged \$185 million in 2018 which is \$11.9 million, or 6.9%, higher than the 2017 full year average. Total loans averaged \$882 million in 2018 which is \$12.1 million, or 1.4%, lower than the 2017 full year average. This combined with the upward repricing of interest bearing liabilities, as well as a higher level of average interest bearing liabilities, resulted in net interest income decreasing between years.

Total average interest bearing liabilities increased by \$7.0 million, or 0.8%, as a lower level of interest bearing deposits was more than offset by a higher level of total average borrowings. Total interest bearing deposits averaged \$786 million in 2018 and decreased when compared to 2017 average by \$8.5 million, or 1.1%. This decrease to average interest bearing deposits was more than offset by total average borrowings of \$78.1 million increasing by \$15.5 million, or 24.7%, between years. Total deposits, including non-interest bearing demand deposits, averaged \$960 million for the full year of 2018 which was \$16.7 million, or 1.7%, lower than the \$976 million average for the full year of 2017. Overall, the Company's loan to deposit ratio averaged 90.4% in the fourth quarter of 2018 which we believe indicates that the Company has ample capacity to grow its loan portfolio.

COMPONENT CHANGES IN NET INTEREST INCOME: 2018 VERSUS 2017... Regarding the separate components of net interest income, the Company's total interest income in 2018 increased by \$2.7 million, or 6.2%, when compared to 2017. Total average earning assets decreased modestly by \$1.4 million, or 0.1% in 2018 as a lower level of total loans more than offset an increased level of total investment securities. The modest decrease in total average earning assets was more than offset by a 25 basis point increase in the earning asset yield from 4.14% to 4.39%. Within the earning asset base, deposits with banks, short term investments in money market funds, and investment securities interest revenue increased by \$927,000 or 18.0% in 2018 due to the increase in the average investment securities portfolio and the yield on total investment securities increasing by 27 basis points from 2.90% to 3.17%. The growth in the investment securities portfolio is the result of management taking advantage of the higher interest rate environment in 2018 to purchase additional securities. Purchases in 2018 primarily focused on federal agency mortgage backed securities due to the ongoing liquid cash flow that these securities provide. Also, management continued its portfolio diversification strategy through purchases of high quality corporate and taxable municipal securities. Even though total average loans decreased since last year, loan interest income increased by \$1.8 million, or 4.6%, for the full year of 2018 when compared to 2017 as the yield on the total loan portfolio increased by 27 basis points from 4.39% to 4.66%. The higher loan interest income reflects new loans originating at higher yields as well as the upward repricing of certain loans tied to LIBOR or the prime rate as both of these indices have moved up with the Federal Reserve's program to increase the target federal funds interest rate. Overall, total loan originations were consistent with the prior year's level. However, loan payoffs exceeded what we experienced in 2017 and also exceeded loan originations in 2018, resulting in a net reduction to the loan portfolio. Included in the total level of payoffs experienced in 2018 was the successful

workout of several criticized but performing loans which resulted in a total loan portfolio already characterized as having strong asset quality becoming even stronger.

Total interest expense for the full year of 2018 increased \$2.8 million, or 31.9%, when compared to 2017, due to higher levels of both deposit and borrowing interest expense. Deposit interest expense in 2018 was higher by \$2.2 million which reflects certain indexed money market accounts and term CDs repricing upward after the Federal Reserve interest rate increases. The cost of interest bearing deposits increased by 28 basis points in 2018 to 1.07% due to the impact of increasing national interest rates. The higher national interest rate environment in 2018 has resulted in increasing market competitive pressure to retain existing deposit customers and attract new customer deposits. Additionally, there has been customer movement of some funds out of lower yielding money market accounts into higher yielding certificates of deposits. The runoff of money market deposits has more than offset the growth of term deposit products and resulted in a decrease in the balance of total deposits in 2018. Specifically, Management continues to carefully price interest rates paid on all deposit categories. The Company experienced a \$617,000, or 24.3%, increase in the interest cost for borrowings in the full year of 2018 due to a higher average balance of total borrowed funds and the immediate impact that the increases in the federal funds rate had on the cost of overnight borrowed funds. Overall, total interest bearing funding costs increased by 31 basis points to 1.31%.

The Company expects that in 2019 loan payoffs will return to a more normal level and be exceeded by loan originations as solid commercial pipelines suggest that the Company should be able to grow the loan portfolio although the pricing pressures on new commercial loans are expected to continue to be intense. The net interest margin remained stable in 2018 for a second consecutive year, even though rising interest rates and competitive pricing pressure to retain and attract new deposits resulted in the net interest margin decreasing during the fourth quarter of 2018. While funding cost pressure is anticipated to continue to present a challenge in 2019, our disciplined approach to price deposits combined with expected earning asset growth should result in net interest income increasing.

2017 NET INTEREST PERFORMANCE OVERVIEW... The Company's net interest income for the full year of 2017 increased by \$1.4 million, or 4.2%, when compared to the full year of 2016. The Company's net interest margin was 3.32% for the full year of 2017 and represented a six basis point improvement from the full year of 2016. The 2017 increase in net interest income was the result of a higher level of total earning assets and favorable balance sheet positioning which contributed to the improved net interest margin performance. The Company grew earning assets and limited increases in its cost of funds through disciplined deposit pricing. Specifically, the earning asset growth occurred in both the loan and investment securities portfolios. Investment securities averaged \$173 million for the full year of 2017 which was \$25.3 million, or 17.2%, higher than the full year 2016 average. Total loans averaged \$894 million for the full year 2017 which was \$6.2 million, or 0.7%, higher than the 2016 full year average.

The Company experienced growth in average deposits which we believe reflects the loyalty of our core deposit base that provides a strong foundation upon which this growth builds. Specifically, total deposits averaged \$976 million in 2017 which was \$20.8 million, or 2.2%, higher than the \$956 million average for the full year of 2016. The deposit growth occurred in interest bearing deposits while the total non-interest bearing demand deposit account balances remained relatively stable between years. As a result of this strong deposit growth, the Company's loan to deposit ratio ended the year at 91.5%.

Total interest expense increased by \$1,060,000, or 13.7%, for the full year of 2017 when compared to 2016, due to higher levels of both deposit and borrowing interest expense. Deposit interest expense in 2017 increased by \$855,000, or 15.8%, due to the higher balance of deposits along with certain indexed money market accounts repricing upward after the Federal Reserve increased interest rates. The Company experienced a \$205,000 increase in the interest cost for borrowings in 2017 primarily due to the immediate impact that the increases in the federal funds rate had on the cost of overnight borrowed funds as well as matured FHLB term advances that were replaced with advances at higher rates. For the full year of 2017, total average FHLB borrowed funds of \$62.6 million, increased by \$4.9 million, or 8.4%.

COMPONENT CHANGES IN NET INTEREST INCOME: 2017 VERSUS 2016... Regarding the separate components of net interest income, the Company's total interest income in 2017 increased by \$2.5 million when compared to 2016. Total average earnings assets in 2017 grew by \$23.7 million due to increases in both average loans and average securities, which was complemented by a 15 basis point increase in the earning asset yield from 3.99% to 4.14%. Within the earning asset base, investment securities interest revenue increased by \$1.1 million or 27.8% in 2017 due to a \$25.3 million increase in the average investment securities portfolio. The yield on total investment securities increased by 24 basis points from 2.66% to 2.90%. The growth in the investment securities portfolio was the result of management electing to diversify the mix of the investment securities portfolio through purchases of high quality corporate and taxable municipal securities. This revised strategy for securities purchases was facilitated by the increase in national interest rates that resulted in improved opportunities to purchase additional securities and grow the portfolio. Total loan interest income increased by \$1.4 million as the yield on the total loan portfolio increased by 12 basis points from 4.27% to 4.39%. Even though loan production slowed somewhat during the fourth quarter because of the uncertainty that existed in the market from potential borrowers due to the timing that corporate tax reform would be enacted, the loan portfolio still demonstrated an increase. Loan interest income increased by \$1,356,000, or 3.6%, for the full year of 2017 when compared to 2016. The higher loan interest income also resulted from new loans originating at higher yields due to the higher interest rates and also reflected the upward repricing of certain loans tied to LIBOR or the prime rate as both of these indices moved up with the Federal Reserve's decision to increase the target federal funds interest rate by 25 basis points three times in 2017.

The Company's total interest expense increased by \$1,060,000, or 13.7%, in 2017 when compared to 2016, due to higher levels of both deposit and borrowing interest expense. The Company experienced growth in average deposits which we believe reflects the loyalty of our core deposit base that provides a strong foundation upon which this growth builds. Management's ability to acquire new core deposit funding from outside of our traditional market areas as well as our ongoing efforts to offer new loan customers deposit products were the primary reasons for this growth. Specifically, total interest bearing deposits averaged \$794 million in 2017 which is \$21.2 million, or 2.7%, higher than the \$773 million average for the full year of 2016. Deposit interest expense in 2017 increased by \$855,000, or 15.8%, due to the higher balance of interest bearing deposits along with certain indexed money market accounts repricing upward after the Federal Reserve interest rate increases. The cost of interest bearing deposits increased by nine basis points in 2017 to 0.79% due to the impact of increasing national interest rates. The Company experienced a \$205,000 increase in the interest cost for borrowings in 2017 due to the immediate impact that the increases in the federal funds rate had on the cost of overnight borrowed funds, FHLB term advances and a higher level of total borrowed funds. Total overnight borrowings increased by \$7.9 million while their cost increased by 64 basis points to 1.21%. The Company also continued to utilize term advances from the FHLB, with maturities ranging between three and five years, to help fund earning asset growth and manage interest rate risk. The average balance of FHLB term advances decreased by \$3.1 million while the average cost of these advances increased by 20 basis points to 1.52% as matured term advances were replaced by advances with higher interest rates. Total FHLB borrowed funds, including overnight borrowed funds, averaged \$62.6 million or 5.4% of total average assets and increased by \$4.9 million, or 8.4%. Overall, total interest bearing funding costs increased by nine basis points to 1.00%.

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 21% is used to compute tax-equivalent interest income and yields during

2018, while a tax rate of 34% was used for 2017 and 2016. The tax equivalent adjustments to interest income on loans for the years ended December 31, 2018, 2017, and 2016 was 21,000, 40,000, and 30,000, respectively.

	YEAR ENDED DECEMBER 31,								
	2018			2017			2016		
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	YIELD/ RATE
	(IN THOUSANDS, EXCEPT PERCENTAGES)								
Interest earning assets:									
Loans, net of unearned income . . .	\$ 881,767	\$41,049	4.66%	\$ 893,849	\$39,257	4.39%	\$ 887,679	\$37,891	4.27%
Deposits with banks	1,023	20	1.90	1,028	11	1.11	1,668	13	0.70
Short-term investment in money market funds	6,725	201	3.00	7,996	130	1.63	15,156	84	0.56
Investment securities:									
Available for sale	145,162	4,527	3.12	135,131	3,800	2.81	121,630	3,132	2.58
Held to maturity	39,388	1,318	3.35	37,484	1,198	3.20	25,649	779	3.04
Total investment securities	184,550	5,845	3.17	172,615	4,998	2.90	147,279	3,911	2.66
TOTAL INTEREST EARNING ASSETS/INTEREST INCOME . . .	1,074,065	47,115	4.39	1,075,488	44,396	4.14	1,051,782	41,899	3.99
Non-interest earning assets:									
Cash and due from banks	23,067			22,393			20,626		
Premises and equipment	12,480			12,273			11,930		
Other assets	62,040			67,169			68,046		
Allowance for loan losses	(9,866)			(10,241)			(9,790)		
TOTAL ASSETS	\$1,161,786			\$1,167,082			\$1,142,594		
Interest bearing liabilities:									
Interest bearing deposits:									
Interest bearing demand	\$ 138,572	\$ 1,134	0.82%	\$ 129,589	\$ 638	0.49%	\$ 108,350	\$ 317	0.29%
Savings	98,035	163	0.17	97,405	162	0.17	95,986	159	0.17
Money market	249,618	2,183	0.87	275,636	1,446	0.52	277,967	1,198	0.43
Other time	299,391	4,963	1.66	291,475	4,009	1.38	290,612	3,726	1.28
Total interest bearing deposits	785,616	8,443	1.07	794,105	6,255	0.79	772,915	5,400	0.70
Federal funds purchased and other short-term borrowings	33,126	720	2.17	16,972	206	1.21	9,030	52	0.57
Advances from Federal Home Loan Bank	44,974	797	1.77	45,657	694	1.52	48,720	644	1.32
Guaranteed junior subordinated deferrable interest debentures	13,085	1,120	8.57	13,085	1,120	8.57	13,085	1,120	8.57
Subordinated debt	7,650	520	6.80	7,650	520	6.80	7,650	519	6.79
TOTAL INTEREST BEARING LIABILITIES/INTEREST EXPENSE	884,451	11,600	1.31	877,469	8,795	1.00	851,400	7,735	0.91
Non-interest bearing liabilities:									
Demand deposits	174,108			182,301			182,732		
Other liabilities	7,077			11,119			8,074		
Stockholders' equity	96,150			96,193			100,388		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY . . .	\$1,161,786			\$1,167,082			\$1,142,594		
Interest rate spread			3.08			3.14			3.08
Net interest income/net interest margin		35,515	3.31%		35,601	3.32%		34,164	3.26%
Tax-equivalent adjustment		(21)			(40)			(30)	
Net interest income		\$35,494			\$35,561			\$34,134	

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.

	2018 vs. 2017			2017 vs. 2016		
	INCREASE (DECREASE) DUE TO CHANGE IN:			INCREASE (DECREASE) DUE TO CHANGE IN:		
	AVERAGE VOLUME	RATE	TOTAL	AVERAGE VOLUME	RATE	TOTAL
	(IN THOUSANDS)					
INTEREST EARNED ON:						
Loans, net of unearned income	\$(505)	\$2,297	\$1,792	\$271	\$1,095	\$1,366
Deposits with banks	(1)	10	9	(6)	4	(2)
Short-term investments in money market funds	(17)	88	71	(15)	61	46
Investment securities:						
Available for sale	292	435	727	370	298	668
Held to maturity	62	58	120	376	43	419
Total investment securities	<u>354</u>	<u>493</u>	<u>847</u>	<u>746</u>	<u>341</u>	<u>1,087</u>
Total interest income	<u>(169)</u>	<u>2,888</u>	<u>2,719</u>	<u>996</u>	<u>1,501</u>	<u>2,497</u>
INTEREST PAID ON:						
Interest bearing demand deposits . . .	46	450	496	71	250	321
Savings deposits	1	—	1	3	—	3
Money market	(120)	857	737	(10)	258	248
Other time deposits	113	841	954	10	273	283
Federal funds purchased and other short-term borrowings	280	234	514	68	86	154
Advances from Federal Home Loan Bank	(10)	113	103	(35)	85	50
Subordinated debt	—	—	—	—	1	1
Total interest expense	<u>310</u>	<u>2,495</u>	<u>2,805</u>	<u>107</u>	<u>953</u>	<u>1,060</u>
Change in net interest income	<u>\$(479)</u>	<u>\$ 393</u>	<u>\$ (86)</u>	<u>\$889</u>	<u>\$ 548</u>	<u>\$1,437</u>

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,		
	2018	2017	2016
	(IN THOUSANDS, EXCEPT PERCENTAGES)		
Total accruing loans past due 30 to 89 days	\$4,752	\$8,178	\$3,278
Total non-accrual loans	1,221	3,016	1,603
Total non-performing assets including TDRs ⁽¹⁾	1,378	3,034	1,624
Loan delinquency as a percentage of total loans, net of unearned income	0.55%	0.92%	0.37%
Non-accrual loans as a percentage of total loans, net of unearned income	0.14	0.34	0.18
Non-performing assets as a percentage of total loans, net of unearned income, and other real estate owned	0.16	0.34	0.18
Non-performing assets as a percentage of total assets	0.12	0.26	0.14
Total classified loans (loans rated substandard or doubtful)	\$4,302	\$5,433	\$6,039

(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 decreased by \$1.7 million since the prior year-end and now total \$1.4 million. 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, and loan delinquency are below 1% of total loans. We continue to closely monitor the loan portfolio given the number of relatively large-sized commercial and CRE loans within the portfolio. As of December 31, 2018, 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,				
	2018	2017	2016	2015	2014
	(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)				
Balance at beginning of year	\$10,214	\$ 9,932	\$ 9,921	\$ 9,623	\$10,104
Charge-offs:					
Commercial	(574)	(311)	(3,662)	(404)	(84)
Commercial loans secured by					
non-owner occupied real estate . . .	—	(132)	(82)	(365)	(797)
Real estate – residential mortgage . . .	(380)	(313)	(208)	(403)	(321)
Consumer	(251)	(172)	(344)	(188)	(121)
Total charge-offs	(1,205)	(928)	(4,296)	(1,360)	(1,323)
Recoveries:					
Commercial	31	27	169	174	190
Commercial loans secured by					
non-owner occupied real estate . . .	51	56	58	76	182
Real estate – residential mortgage . . .	119	207	100	132	71
Consumer	61	120	30	26	24
Total recoveries	262	410	357	408	467
Net charge-offs	(943)	(518)	(3,939)	(952)	(856)
Provision (credit) for loan losses	(600)	800	3,950	1,250	375
Balance at end of year	\$ 8,671	\$10,214	\$ 9,932	\$ 9,921	\$ 9,623

	YEAR ENDED DECEMBER 31,				
	2018	2017	2016	2015	2014
(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)					
Loans and loans held for sale, net of unearned income:					
Average for the year	\$881,767	\$893,849	\$887,679	\$857,015	\$804,721
At December 31	863,129	892,758	886,858	883,987	832,131
As a percent of average loans:					
Net charge-offs	0.11%	0.06%	0.44%	0.11%	0.11%
Provision (credit) for loan losses	(0.07)	0.09	0.44	0.15	0.05
Allowance as a percent of each of the following:					
Total loans, net of unearned income . . .	1.00	1.14	1.12	1.13	1.16
Total accruing delinquent loans (past due 30 to 89 days)	182.47	124.90	302.99	225.68	364.09
Total non-accrual loans	710.16	338.66	619.59	163.55	438.21
Total non-performing assets	629.25	336.65	611.58	157.55	329.89
Allowance as a multiple of net charge-offs	9.20x	19.72x	2.52x	10.42x	11.24x

For 2018, the Company recorded a \$600,000 negative provision for loan losses compared to an \$800,000 provision for loan losses in 2017 or a decrease of \$1.4 million between years. The negative 2018 provision reflects our overall strong asset quality, reduced loan portfolio balance and the successful workout of several criticized loans which resulted in the release of reserves after two criticized loans that had balances totaling in excess of \$11 million fully paid off during the third and fourth quarters of 2018. The Company experienced net loan charge-offs of \$943,000, or 0.11% of total loans in 2018 compared to net loan charge-offs of \$518,000, or 0.06%, of total loans in 2017. Overall, the Company continued to maintain outstanding asset quality as its nonperforming assets totaled \$1.4 million, or only 0.16% of total loans, at December 31, 2018. In summary, the allowance for loan losses provided 629% coverage of non-performing assets, and 1.00% of total loans, at December 31, 2018, compared to 337% coverage of non-performing assets, and 1.14% of total loans, at December 31, 2017.

For 2017, the Company recorded an \$800,000 provision for loan losses compared to a \$3,950,000 provision for loan losses in 2016 or a decrease of \$3.2 million between years. Both, the loan loss provision and net charge-offs were at more typical levels during 2017 than the substantially higher levels that were necessary early in 2016 to resolve a troubled loan exposure to the energy industry. The provision recorded in 2017 supported commercial loan growth and more than covered the low level of net loan charge-offs in 2017 resulting in the allowance for loan losses growing between years. The Company experienced net loan charge-offs of \$518,000, or 0.06% of total loans, in 2017 compared to net loan charge-offs of \$3.9 million, or 0.44% of total loans, in 2016. Overall, the Company continued to maintain strong asset quality as its nonperforming assets totaled \$3.0 million, or 0.34%, of total loans, at December 31, 2017. In summary, the allowance for loan losses provided 337% coverage of non-performing assets, and 1.14% of total loans, at December 31, 2017, compared to 612% coverage of non-performing assets, and 1.12% of total loans, at December 31, 2016.

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.

	AT DECEMBER 31,									
	2018		2017		2016		2015		2014	
	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS
	(IN THOUSANDS, EXCEPT PERCENTAGES)									
Commercial	\$3,057	29.0%	\$ 4,298	28.0%	\$4,041	29.8%	\$4,243	31.6%	\$3,588	28.9%
Commercial loans secured by non-owner occupied real estate	3,389	41.4	3,666	42.0	3,584	40.2	3,449	36.9	3,576	37.6
Real estate – residential mortgage	1,235	27.6	1,102	27.8	1,169	27.8	1,174	29.2	1,310	31.2
Consumer	127	2.0	128	2.2	151	2.2	151	2.3	190	2.3
Allocation to general risk	863	—	1,020	—	987	—	904	—	959	—
Total	<u>\$8,671</u>	<u>100.0%</u>	<u>\$10,214</u>	<u>100.0%</u>	<u>\$9,932</u>	<u>100.0%</u>	<u>\$9,921</u>	<u>100.0%</u>	<u>\$9,623</u>	<u>100.0%</u>

Even though residential real estate-mortgage loans comprise 27.6% of the Company’s total loan portfolio, only \$1.2 million or 14.2% 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 non-owner occupied real estate reflect the increased credit risk associated with those types of lending, the Company’s historical loss experience in these categories, and other qualitative factors. The stability in the part of the allowance allocated to each loan category reflects the continued strong asset quality of each sector.

Based on the Company’s current 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, 2018 to cover losses within the Company’s loan portfolio.

In December 2018, the federal banking agencies issued a final rule to revise their regulatory capital rules to address the Current Expected Credit Losses (CECL) accounting standard, and provide an option to phase in the day-one regulatory capital effects of the adoption of the CECL accounting standard over three years. Under the final rule, an institution that is required to adopt the CECL accounting standard beginning the first quarter of 2020 can make a one-time election to phase in the effects of the accounting standard on its regulatory capital calculations, such that the effects of adopting the CECL accounting standard on regulatory capital are fully phased in as of the first quarter of 2023.

NON-INTEREST INCOME... Non-interest income for 2018 totaled \$14.2 million, a decrease of \$421,000, or 2.9%, from 2017. Factors contributing to this lower level of non-interest income in 2018 included:

- a \$554,000 negative change in the net realized gain/loss on investment securities primarily results from two security sell transactions. Early in 2018, management viewed the gain recognized on the sale of equity securities, described in the third bulleted item, as an opportunity to rid the investment securities portfolio of certain investments having a low yield and a small balance. Similarly, because of the negative loan loss provision recognized during the fourth quarter of 2018, management viewed this as another opportunity to, again, sell certain low yielding securities. The funds from both sells were reinvested in securities with higher current market coupon rates. Both security sell transactions were negatively impacted by the market value of sold securities decreasing since last year due to the higher interest rate environment in 2018. However, because of the reinvestment of the sold funds into higher yielding instruments, the result of both transactions positions the Company for an increased future return from the investment securities portfolio;

- a \$489,000 increase in Wealth Management fees was primarily due to the Company benefitting from increased market values for assets under management in 2018. Wealth management continues to be an important strategic focus as it contributes to non-interest revenue, which comprises over 29% of the Company's total revenue;
- a \$285,000 increase in other income primarily was due to a \$156,000 gain realized on the sale of certain equity method investments that the Company owned from a previous acquisition. The Company also benefitted from higher interchange fees, increased revenue from business services, and higher letter of credit fees;
- a combined \$279,000 decrease in net gains on loans sold into the secondary market and mortgage related fees was due to lower production and reduced refinance activity of residential mortgage loans;
- a \$201,000 decrease in revenue from bank owned life insurance (BOLI) occurred after the Company received a death claim in 2017 and there was no such claim this year; and
- a \$161,000 decrease in revenue from deposit service charges was due to a reduced level of overdraft fee income;

Non-interest income for 2017 totaled \$14.6 million, an increase of \$7,000, or 0.1%, from 2016. Factors contributing to this higher level of non-interest income in 2017 included:

- a \$423,000, or 4.8%, increase in wealth management fees as the Company benefited from additional revenue resulting from a more aggressive business development strategy within its Financial Services Division. The Company also benefited from increased market values for assets under management in 2017.
- a \$62,000 increase in Bank Owned Life Insurance (BOLI) revenue after the Company received one death claim in 2017.
- a \$287,000, or 22.9%, decrease in mortgage loan sale gains and mortgage related fees due to reduced refinance activity and a lower level of new mortgage loan originations when compared to 2016.
- a \$93,000, or 5.6%, decrease in service charges on deposit accounts due to fewer overdraft charges.
- a \$62,000 decrease in revenue from investment security sale transactions due to the increase in national interest rates which resulted in the market value of existing securities in the Company's portfolio decreasing since last year.

NON-INTEREST EXPENSE... Non-interest expense for 2018 totaled \$40.9 million, which represents a \$170,000, or 0.4%, increase from 2017. Factors contributing to the higher non-interest expense in 2018 included:

- a \$438,000, or 1.8%, increase in salaries & benefits expense due to higher salaries and incentive compensation as a result of the typical annual salary merit increases and additional incentives paid primarily within our Wealth Management division due to the increased level of fee income mentioned previously. Also in the fourth quarter of 2018, 4 additional employees were hired for our new Hagerstown, Maryland financial banking center; and
- a combined \$259,000 reduction in occupancy & equipment costs is primarily attributable to the Company's ongoing efforts to carefully manage and contain non-interest expense. Specifically, a branch office closure in Cambria County along with a branch consolidation in the State College market resulted in reduced rent expense and other occupancy related costs;

Non-interest expense for 2017 totaled \$40.8 million, which represents an \$849,000, or 2.0%, decrease from 2016. Factors contributing to the lower non-interest expense in 2017 included:

- other expenses were down \$413,000, or 7.8%, while professional fees declined by \$222,000, or 4.2%, due to lower legal fees and litigation costs and the non-recurrence of costs related to resolving a trust operations trading error in 2016.
- occupancy expenses were lower by \$182,000, or 6.5%, and equipment costs declined by \$103,000, or 6.1%, as a result of the management's continued efforts to control costs. Specifically, a branch consolidation and closure of an unprofitable loan production office were the primary reasons for these expenses decreasing between years.
- Total salaries and benefits increased by \$93,000, or 0.4%. The increase between years was limited by our ongoing cost control focus despite additional investment in talent, particularly in our wealth management division.

INCOME TAX EXPENSE... The Company recorded an income tax expense of \$1.6 million, or an effective tax rate of 17.2%, in 2018, compared to income tax expense of \$5.3 million, or a 61.9% effective tax rate, in 2017. The lower effective tax rate and income tax expense in 2018 reflects the benefits of corporate tax reform as a result of the enactment of the "Tax Cuts and Jobs Act" late in the fourth quarter of 2017, which lowered the corporate income tax rate from 34% to 21%. Also, because of the enactment of this new tax law, the Company was able to achieve a greater income tax benefit in the third quarter of 2018 by making a one-time additional contribution to the defined benefit pension plan. This one-time additional income tax benefit is the reason that the 17.2% effective income tax rate for 2018 is lower than our more typical 20% effective income tax rate that was recognized in three out of the four quarters in 2018. Finally, the higher income tax expense in 2017 also resulted from an additional income tax charge of \$2.6 million recorded in the fourth quarter of 2017 as corporate income tax reform necessitated the revaluation of the Company's deferred tax asset because of the new lower corporate tax rate. The Company's deferred tax asset was \$3.6 million at December 31, 2018.

SEGMENT RESULTS... Each segment benefitted from a lower corporate income tax rate in 2018 that resulted from the enactment of the Tax Cuts and Jobs Act which caused a reduction in income tax expense. There will be no such benefit in 2019.

Retail banking's net income contribution was \$3.9 million in 2018 and increased from the \$2.7 million contribution in 2017 and \$3.0 million in 2016. The increase in 2018 reflects a reduced level of non-interest expense and a lower level of interest bearing deposits between years. Also, management prices deposits in a controlled but competitive manner which helps to offset the immediate upward repricing of money market deposit accounts because of the increases to the federal funds rate. This contributed to increased net interest income in this segment. The lower level of non-interest expense was due to the Company's focus on reducing and controlling costs which resulted in lower employee expense due to the closure of one branch office and reduced health care and pension costs. The branch office that closed along with our efforts to reduce and control expenses resulted in occupancy & equipment costs and miscellaneous expenses declining between periods. The Retail banking segment also benefitted from the recognition of the negative loan loss provision in 2018. Slightly offsetting these favorable items was a lower level of non-interest income due to reduced residential mortgage loan sale gain income, mortgage related fees, fee income from deposit service charges and BOLI income.

The commercial banking segment reported net income of \$7.2 million in 2018 compared to net income of \$5.8 million in 2017 and \$3.3 million in 2016. The higher level of net income in of 2018 was due to a greater level of loan interest income, the negative provision for loan losses, and lower operating expenses. Total loan interest income increased and reflects new loans originating at higher yields as well as the upward repricing of certain loans tied to LIBOR or the prime rate as both of these indices have moved up with the Federal Reserve's decision to increase the target federal funds interest rate. The higher loan interest income more than offsets the unfavorable impact of a reduced volume of commercial and commercial real estate loans this year as early loan prepayment activity more than offset loan production. The negative loan loss provision in 2018 reflects our overall strong asset quality, the reduced loan portfolio balances, and the successful

workout of several criticized loans which resulted in the release of reserves after two criticized loans that had balances totaling in excess of \$11 million fully paid off during the third and fourth quarters of 2018. Also, total employee costs are lower due to reduced pension expense and three fewer commercial relationship managers for most of the year in 2018. Finally, miscellaneous expenses as well as occupancy & equipment costs were lower in 2018.

The wealth management segment's net income contribution was \$1.8 million in 2018 compared to \$1.4 million in 2017 and \$1.1 million in 2016. The increase is due to wealth management fees increasing as this segment has benefitted from increased market values for assets under management. Slightly offsetting these favorable items was higher employee costs due to higher salaries because of additional investment in talent, and a greater level of incentive compensation. Overall, the fair market value of trust assets under administration totaled \$2.106 billion at December 31, 2018, a decrease of \$80 million, or 3.7%, from the December 31, 2017 total of \$2.186 billion.

The investment/parent segment reported a net loss of \$5.1 million in 2018, which was lower than the net loss of \$6.7 million in 2017 and \$5.2 million in 2016. The decreased loss between years is reflective of income tax expense returning to a more normal level in 2018 after the recognition of the additional income tax charge of \$2.6 million recorded in December of 2017 that was related to corporate income tax reform. Also, the Company benefitted from the higher level of investment securities on the Company's balance sheet in 2018. Slightly offsetting these two items was a higher level of non-interest expense at the Parent Company primarily due to higher employee costs and the Company generating an overall net investment security sell loss of \$439,000 in 2018 after recognizing a net gain of \$115,000 in 2017. The net loss occurred as management had the opportunity to sell certain low yielding securities and reinvest the funds in securities with higher current market coupon rates. The security sell transactions were negatively impacted by the market value of sold securities decreasing since last year due to the higher interest rate environment in 2018. The result of both transactions positions the Company for an increased future return from the investment securities portfolio.

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 Note 25.

BALANCE SHEET... The Company's total consolidated assets of \$1.161 billion at December 31, 2018 decreased by \$7.0 million, or 0.6% from the \$1.168 billion level at December 31, 2017. The decrease to total consolidated assets was due primarily to a \$29.6 million or 3.3% decrease in total loans which more than offset total investment securities increasing by \$19.6 million or 11.7%. Overall, total loan originations were consistent with the prior year's level 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. However, loan payoffs exceeded what we experienced in 2017 and also exceeded loan originations in 2018, resulting in a net reduction to the loan portfolio in 2018. Included in the total level of payoffs was the successful workout of several criticized but performing loans which resulted in a total loan portfolio already characterized as having strong asset quality becoming even stronger. The growth in the investment securities portfolio is the result of management taking advantage of the higher interest rate environment in 2018 to purchase additional securities. Purchases in 2018 primarily focused on federal agency mortgage backed securities due to the ongoing liquid cash flow that these securities provide. Also, management continued its portfolio diversification strategy through purchases of high quality corporate and taxable municipal securities.

The Company's deposits at period end increased by \$1.2 million and was more than offset by a decrease in FHLB borrowings (\$7.5 million). The decrease in FHLB borrowings occurred in overnight borrowed funds. The FHLB term advances, with maturities between 3 and 5 years, remained relatively stable at \$46 million as the Company has utilized these advances to help mitigate interest rate risk. Other liabilities decreased by \$3.6 million primarily due to a decrease in the Company's pension liability. Total stockholders' equity increased by \$2.9 million since year-end 2017 due to the improved and higher level of earnings in 2018 after, both, earnings and total equity were negatively impacted by the additional income tax charge late in 2017. The higher level of earnings in 2018 also more than offset a negative impact to equity caused by the higher

interest rates in 2018 which resulted in a corresponding decrease to the market value of the existing available for sale investment securities portfolio. Also, the Company continued to return capital to its shareholders through the common stock repurchase program and an increased its quarterly common stock cash dividend in the second quarter of 2018 from \$0.015 per common share to \$0.02 per common share. The Company continues to be considered well capitalized for regulatory purposes with a risk based capital ratio of 13.53% and an asset leverage ratio of 9.71% at December 31, 2018. The Company's book value per common share was \$5.56, its tangible book value per common share was \$4.88 and its tangible common equity to tangible assets ratio was 7.49% at December 31, 2018.

The tangible common equity ratio is considered a non-GAAP measure and is calculated by dividing tangible equity by tangible assets. The following table sets forth the calculation of the Company's tangible common equity ratio at December 31, 2018, 2017, and 2016 (in thousands, except ratio):

	AT DECEMBER 31,		
	2018	2017	2016
Total shareholders' equity	\$ 97,977	\$ 95,102	\$ 95,395
Less: Goodwill	11,944	11,944	11,944
Tangible equity	<u>86,033</u>	83,158	83,451
Total assets	1,160,680	1,167,655	1,153,780
Less: Goodwill	11,944	11,944	11,944
Tangible assets	<u>1,148,736</u>	1,155,711	1,141,836
Tangible common equity ratio	7.49%	7.20%	7.31%

LIQUIDITY... The Company's liquidity position has been strong during the last several years. Our core retail deposit base has remained relatively stable over the past five 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, 2018, the Company's loan to deposit ratio was 90.9%. Given current commercial loan pipelines and the continued development of our three 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 analysed by utilizing the Consolidated Statements of Cash Flows. Cash and cash equivalents increased by \$706,000 from December 31, 2017, to December 31, 2018, due to \$8.0 million of cash provided by operating activities and \$2.7 million of cash provided by investing activities. This more than offset \$10.0 million of cash used in financing activities. Within investing activities, cash advanced for new loan fundings and purchases totaled \$169.1 million and was \$26.3 million lower than the \$195.4 million of cash received from loan principal payments and sales. Within financing activities, deposits increased by \$1.2 million. Total FHLB borrowings decreased as advances, both short-term and long term, declined by \$7.6 million due to the lower level of total earning assets in 2018.

The holding company had a total of \$8.6 million of cash, short-term investments, and investment securities at December 31, 2018. Additionally, dividend payments from our subsidiaries can also provide ongoing cash to the holding company. At December 31, 2018, our subsidiary Bank had \$7.3 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, and its common stock dividends, which in total should approximate \$2.9 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 \$35 million and \$34 million at December 31, 2018 and 2017, 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.

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, 2018, the Company had \$351 million of overnight borrowing availability at the FHLB, \$29 million of short-term borrowing availability at the Federal Reserve Bank and \$35 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 9.71% and the risk based capital ratio was 13.53% at December 31, 2018. We anticipate that we will maintain our strong capital ratios throughout 2019.

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

In the first quarter of 2018, the Company completed the previous common stock repurchase program where it bought back 945,000 shares or 5% of its common stock over a 14-month period. Specifically, during the first three months of 2018, the Company was able to repurchase 105,663 shares of its common stock and return \$445,000 of capital to its shareholders through this program.

On July 17, 2018, the Company announced a new common stock repurchase program which calls for AmeriServ Financial Inc. to buy back up to 3%, or approximately 540,000 shares, of its outstanding common stock during the next 12 months. The authorized repurchases will be made from time to time in either the open market or through privately negotiated transactions. The timing, volume and nature of share repurchases will be at the sole discretion of management, dependent on market conditions, applicable securities laws, and other factors, and may be suspended or discontinued at any time. No assurance can be given that any particular amount of common stock will be repurchased. This buyback program may be modified, extended or terminated by the Board of Directors at any time. During the second half of 2018 as part of the most recent buyback program, the Company was able to repurchase 427,689 shares of its common stock and return \$1,902,000 of capital to its shareholders. This represents approximately 79% of the authorized common stock repurchase program. At December 31, 2018, the Company had approximately 17.6 million common shares outstanding.

Capital generated from earnings will be utilized to pay the common stock cash dividend, support the stock repurchase program and will also support controlled balance sheet growth. Our common dividend payout ratio for the full year 2018 was 17.3%. Total Parent Company cash was \$8.6 million at December 31, 2018. 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, 2018:

<u>INTEREST SENSITIVITY PERIOD</u>	<u>3 MONTHS OR LESS</u>	<u>OVER 3 MONTHS THROUGH 6 MONTHS</u>	<u>OVER 6 MONTHS THROUGH 1 YEAR</u>	<u>OVER 1 YEAR</u>	<u>TOTAL</u>
(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)					
RATE SENSITIVE ASSETS:					
Loans and loans held for sale	\$267,498	\$ 46,553	\$ 81,458	\$467,620	\$ 863,129
Investment securities	34,050	4,440	13,185	135,816	187,491
Short-term assets	6,924	—	—	—	6,924
Regulatory stock	4,520	—	—	2,125	6,645
Bank owned life insurance	—	—	38,395	—	38,395
Total rate sensitive assets	<u>\$312,992</u>	<u>\$ 50,993</u>	<u>\$133,038</u>	<u>\$605,561</u>	<u>\$1,102,584</u>
RATE SENSITIVE LIABILITIES:					
Deposits:					
Non-interest bearing deposits	\$ —	\$ —	\$ —	\$150,627	\$ 150,627
NOW	38,893	—	—	163,342	202,235
Money market	175,375	—	—	46,021	221,396
Other savings	24,349	—	—	73,056	97,405
Certificates of deposit of \$100,000 or more	10,092	9,581	9,480	5,688	34,841
Other time deposits	69,607	14,702	28,436	129,922	242,667
Total deposits	<u>318,316</u>	<u>24,283</u>	<u>37,916</u>	<u>568,656</u>	<u>949,171</u>
Borrowings	42,029	1,000	10,500	54,648	108,177
Total rate sensitive liabilities	<u>\$360,345</u>	<u>\$ 25,283</u>	<u>\$ 48,416</u>	<u>\$623,304</u>	<u>\$1,057,348</u>
INTEREST SENSITIVITY GAP:					
Interval	(47,353)	25,710	84,622	(17,743)	—
Cumulative	<u>\$(47,353)</u>	<u>\$(21,643)</u>	<u>\$ 62,979</u>	<u>\$ 45,236</u>	<u>\$ 45,236</u>
Period GAP ratio	0.87X	2.02X	2.75X	0.97X	
Cumulative GAP ratio	0.87	0.94	1.15	1.04	
Ratio of cumulative GAP to total assets . .	(4.08)%	(1.86)%	5.43%	3.90%	

When December 31, 2018 is compared to December 31, 2017, the Company's cumulative GAP ratio through one year indicates that the Company's balance sheet is still asset sensitive although the level of asset sensitivity has declined slightly between years. We continue to see loan customer preference for fixed rate loans given the recent rise in interest rates. The decrease in total deposits resulted in overnight borrowings increasing which are immediately impacted by changes to national interest rates. We continue to have a consistent level of term advances with the FHLB to help manage our interest rate risk position.

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.

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	(0.1)%	17.3%
100 bp increase	0.4	10.0
100 bp decrease	(1.2)	(13.8)

The Company believes that its overall interest rate risk position is well controlled. The variability of net interest income is near neutral in the upward rate shocks due to the impact of the decreasing total loan portfolio balance and the increase to overnight borrowed funds. This is offset by the Company's short duration investment securities portfolio and scheduled repricing of loans tied to LIBOR or prime. Also, the Company will continue its disciplined approach to price its core deposit in a controlled but competitive manner 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 2.25% to 2.50%. 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, 2018, 79.2% of the portfolio is classified as available for sale and 20.8% 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 176 securities that are temporarily impaired at December 31, 2018. The Company reviews its securities quarterly and has asserted that at December 31, 2018, 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 a portion 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 2018, 78% of all residential mortgage loan production was sold into the secondary market. Given the increase in interest rates that occurred during 2018 and the residential mortgage loan portfolio exhibiting a declining trend, it is anticipated that, although we will continue to sell newly originated residential mortgages into the secondary market, the percentage of loans sold in 2019 will be reduced.

The amount of loans outstanding by category as of December 31, 2018, 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 and industrial	\$ 36,303	\$ 82,339	\$ 39,637	\$158,279
Commercial loans secured by owner occupied real estate	6,244	30,506	55,155	91,905
Commercial loans secured by non-owner occupied real estate	44,909	104,871	206,763	356,543
Real estate – residential mortgage	10,082	39,648	189,081	238,811
Consumer	6,474	4,031	7,086	17,591
Total	<u>\$104,012</u>	<u>\$261,395</u>	<u>\$497,722</u>	<u>\$863,129</u>
Loans with fixed-rate	\$ 39,050	\$173,473	\$207,823	\$420,346
Loans with floating-rate	64,962	87,922	289,899	442,783
Total	<u>\$104,012</u>	<u>\$261,395</u>	<u>\$497,722</u>	<u>\$863,129</u>
Percent composition of maturity	12.1%	30.3%	57.6%	100.0%
Fixed-rate loans as a percentage of total loans				48.7%
Floating-rate loans as a percentage of total loans				51.3%

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.

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 \$177.8 million and standby letters of credit of \$16.7 million as of December 31, 2018. 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. As of December 31, 2018, the Company had \$39.6 million in interest rate swaps outstanding.

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 commercial real estate loans are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the ALL. Approximately \$6.4 million, or 74%, of the total ALL at December 31, 2018 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 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 the impairment of goodwill.

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

ACCOUNT — Income Taxes

BALANCE SHEET REFERENCE — Net deferred tax asset

INCOME STATEMENT REFERENCE — Provision for income 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 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, 2018, 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, 2018, the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by government agencies or government sponsored agencies and certain high quality corporate and taxable municipal securities. The Company believes the unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

FORWARD LOOKING STATEMENTS...

THE STRATEGIC FOCUS

AmeriServ Financial is committed to increasing shareholder value by striving for consistently improving financial performance; providing our customers with products and exceptional service for every step in their lifetime financial journey; cultivating an employee atmosphere rooted in trust, empowerment and growth; and serving our communities through employee involvement and a philanthropic spirit. We will strive to provide our shareholders with consistently improved financial performance; the products, services and know-how needed to forge lasting banking for life customer relationships; a work environment that challenges and rewards staff; and the manpower and financial resources needed to make a difference in the communities we serve. Our strategic initiatives will focus on these four key constituencies:

- **Shareholders** — We expect to increase earnings per share growth; identifying and managing revenue growth and expense reduction; and managing risk. Our goal is to increase value for AmeriServ shareholders by growing earnings per share by 10 percent year-over-year and narrowing the financial performance gap between AmeriServ and its peer banks. We expect to return up to 75 percent of earnings to shareholders through a combination of dividends and share repurchases subject to maintaining sufficient capital to support balance sheet growth. We strive to educate our employee base as to the meaning/importance of earnings per share as a performance measure. We will develop a value added combination for increasing revenue and reducing expenses that is rooted in developing and offering high-quality financial products and services; an existing branch network; electronic banking capabilities with 24/7 convenience; and providing truly exceptional customer service. We will explore branch consolidation opportunities and further leverage union affiliated revenue streams, prudently manage the Company's risk profile to improve asset yields and increase profitability and continue to identify and implement technological opportunities and advancements to drive efficiency for the holding company and its affiliates.
- **Customers** — The Company expects to provide exceptional customer service, identifying opportunities to enhance the Banking for Life philosophy by providing products and services to meet the financial needs in every step through a customer's life cycle, and further defining the role technology plays in anticipating and satisfying customer needs. We anticipate providing leading banking systems and solutions to improve and enhance customers' Banking for Life experience. We will provide customers with a comprehensive offering of financial solutions including retail and business banking, home mortgages and wealth management at one location. We have upgraded and modernized select branches to be more inviting and technologically savvy to meet the needs of the next generation of AmeriServ customers without abandoning the needs of our existing demographic. We are committed to additional renovations in the future.
- **Staff** — We are committed to developing high-performing employees, establishing and maintaining a culture of trust and effectively and efficiently managing staff attrition. We will employ a work force succession plan to manage anticipated staff attrition while identifying and grooming high performing staff members to assume positions with greater responsibility within the organization. We will employ technological systems and solutions to provide staff with the tools they need to perform more efficiently and effectively.
- **Communities** — We will continue to promote and encourage employee community involvement and leadership while fostering a positive corporate image. This will be accomplished by demonstrating our commitment to the communities it serves through assistance in providing affordable housing programs for low-to-moderate-income families; donations to qualified charities; and the time and talent contributions of AmeriServ staff to a wide-range of charitable and civic organizations.

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," "anticipate," "estimate," "intend," "project," "plan" or similar expressions. These forward-looking statements are based upon current expectations, are subject to risk and uncertainties and are applicable only as of the dates of such statements. Forward-looking statements involve risks, uncertainties and

assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Form 10-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.

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,	
	2018	2017
	(IN THOUSANDS, EXCEPT SHARE DATA)	
ASSETS		
Cash and due from depository institutions	\$ 27,970	\$ 26,234
Interest bearing deposits	2,740	2,698
Short-term investments in money market funds	4,184	5,256
Cash and cash equivalents	<u>34,894</u>	<u>34,188</u>
Investment securities:		
Available for sale	146,731	129,138
Held to maturity (fair value \$40,324 at December 31, 2018 and \$38,811 at December 31, 2017)	40,760	38,752
Loans held for sale	847	3,125
Loans	862,604	890,032
Less: Unearned income	322	399
Allowance for loan losses	8,671	10,214
Net loans	<u>853,611</u>	<u>879,419</u>
Premises and equipment, net	13,348	12,734
Accrued interest income receivable	3,489	3,603
Goodwill	11,944	11,944
Bank owned life insurance	38,395	37,860
Net deferred tax asset	3,637	5,963
Federal Home Loan Bank stock	4,520	4,675
Federal Reserve Bank stock	2,125	2,125
Other assets	6,379	4,129
TOTAL ASSETS	<u>\$1,160,680</u>	<u>\$1,167,655</u>
LIABILITIES		
Non-interest bearing deposits	\$ 150,627	\$ 183,603
Interest bearing deposits	798,544	764,342
Total deposits	<u>949,171</u>	<u>947,945</u>
Short-term borrowings	41,029	49,084
Advances from Federal Home Loan Bank	46,721	46,229
Guaranteed junior subordinated deferrable interest debentures	12,939	12,923
Subordinated debt	7,488	7,465
Total borrowed funds	<u>108,177</u>	<u>115,701</u>
Other liabilities	5,355	8,907
TOTAL LIABILITIES	<u>1,062,703</u>	<u>1,072,553</u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share; 30,000,000 shares authorized: 26,609,811 shares issued and 17,619,303 shares outstanding on December 31, 2018; 30,000,000 shares authorized; 26,585,403 shares issued and 18,128,247 shares outstanding on December 31, 2017	266	266
Treasury stock at cost, 8,990,508 shares on December 31, 2018 and 8,457,156 shares on December 31, 2017	(80,579)	(78,233)
Capital surplus	145,782	145,707
Retained earnings	46,733	40,312
Accumulated other comprehensive loss, net	(14,225)	(12,950)
TOTAL STOCKHOLDERS' EQUITY	<u>97,977</u>	<u>95,102</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$1,160,680</u>	<u>\$1,167,655</u>

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
INTEREST INCOME			
Interest and fees on loans:			
Taxable	\$40,938	\$39,122	\$37,786
Tax exempt	90	95	75
Interest bearing deposits	20	11	13
Short-term investments in money market funds	201	130	84
Investment securities:			
Available for sale	4,527	3,800	3,132
Held to maturity	1,318	1,198	779
Total Interest Income	<u>47,094</u>	<u>44,356</u>	<u>41,869</u>
INTEREST EXPENSE			
Deposits	8,443	6,255	5,400
Short-term borrowings	720	206	52
Advances from Federal Home Loan Bank	797	694	644
Guaranteed junior subordinated deferrable interest debentures	1,120	1,120	1,120
Subordinated debt	520	520	519
Total Interest Expense	<u>11,600</u>	<u>8,795</u>	<u>7,735</u>
Net Interest Income	35,494	35,561	34,134
Provision (credit) for loan losses	(600)	800	3,950
Net Interest Income after Provision (Credit) for Loan Losses	<u>36,094</u>	<u>34,761</u>	<u>30,184</u>
NON-INTEREST INCOME			
Wealth management fees	9,659	9,170	8,747
Service charges on deposit accounts	1,420	1,581	1,674
Net gains on loans held for sale	489	679	884
Mortgage related fees	196	285	367
Net realized gains (losses) on investment securities	(439)	115	177
Bank owned life insurance	536	737	675
Other income	2,363	2,078	2,114
Total Non-Interest Income	<u>14,224</u>	<u>14,645</u>	<u>14,638</u>
NON-INTEREST EXPENSE			
Salaries and employee benefits	24,358	23,920	23,546
Net occupancy expense	2,462	2,600	2,782
Equipment expense	1,464	1,585	1,688
Professional fees	5,039	5,058	5,280
Supplies, postage, and freight	674	676	705
Miscellaneous taxes and insurance	1,125	1,234	1,146
Federal deposit insurance expense	557	628	709
Other expense	5,257	5,065	5,759
Total Non-Interest Expense	<u>40,936</u>	<u>40,766</u>	<u>41,615</u>

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS – (continued)

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
PRETAX INCOME	9,382	8,640	3,207
Provision for income taxes	1,614	5,347	897
NET INCOME	7,768	3,293	2,310
Preferred stock dividends	—	—	15
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ 7,768</u>	<u>\$ 3,293</u>	<u>\$ 2,295</u>
PER COMMON SHARE DATA:			
Basic:			
Net income	\$ 0.43	\$ 0.18	\$ 0.12
Average number of shares outstanding	17,933	18,498	18,896
Diluted:			
Net income	\$ 0.43	\$ 0.18	\$ 0.12
Average number of shares outstanding	18,037	18,600	18,955
Cash dividends declared	\$ 0.075	\$ 0.060	\$ 0.050

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS)		
COMPREHENSIVE INCOME (LOSS)			
Net income	\$ 7,768	\$3,293	\$ 2,310
Other comprehensive income (loss), before tax:			
Pension obligation change for defined benefit plan	(244)	1,303	(4,612)
Income tax effect	51	(442)	1,569
Unrealized holding losses on available for sale securities arising during period	(1,810)	(40)	(1,305)
Income tax effect	381	13	443
Reclassification adjustment for net realized (gains) losses on available for sale securities included in net income	439	(115)	(177)
Income tax effect	(92)	39	60
Other comprehensive income (loss)	(1,275)	758	(4,022)
Comprehensive income (loss)	<u>\$ 6,493</u>	<u>\$4,051</u>	<u>\$(1,712)</u>

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS)		
PREFERRED STOCK			
Balance at beginning of period	\$ —	\$ —	\$ 21,000
Redemption of all preferred shares outstanding	—	—	(21,000)
Balance at end of period	—	—	—
COMMON STOCK			
Balance at beginning of period	266	265	265
New common shares issued for dividend reinvestment and stock purchase plan	—	1	—
Balance at end of period	266	266	265
TREASURY STOCK			
Balance at beginning of period	(78,233)	(74,829)	(74,829)
Treasury stock, purchased at cost (533,352 and 839,337 shares in 2018 and 2017, respectively)	(2,346)	(3,404)	—
Balance at end of period	(80,579)	(78,233)	(74,829)
CAPITAL SURPLUS			
Balance at beginning of period	145,707	145,535	145,441
New common shares issued for exercise of stock options (24,408, 64,112, and 32,661 shares in 2018, 2017, and 2016, respectively)	61	159	74
Stock option expense, net of tax	14	13	20
Balance at end of period	145,782	145,707	145,535
RETAINED EARNINGS			
Balance at beginning of period	40,312	36,001	34,651
Net income	7,768	3,293	2,310
Cash dividend declared on common stock	(1,347)	(1,113)	(945)
Reclassification of certain income tax effects from accumulated other comprehensive income	—	2,131	—
Cash dividend declared on preferred stock	—	—	(15)
Balance at end of period	46,733	40,312	36,001
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET			
Balance at beginning of period	(12,950)	(11,577)	(7,555)
Reclassification of certain income tax effects from accumulated other comprehensive income	—	(2,131)	—
Other comprehensive income (loss)	(1,275)	758	(4,022)
Balance at end of period	(14,225)	(12,950)	(11,577)
TOTAL STOCKHOLDERS' EQUITY	\$ 97,977	\$ 95,102	\$ 95,395

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
	2018	2017	2016
	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income	\$ 7,768	\$ 3,293	\$ 2,310
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (credit) for loan losses	(600)	800	3,950
Depreciation and amortization expense	1,530	1,665	1,803
Net amortization of investment securities	347	436	488
Net realized (gains) losses on investment securities – available for sale	439	(115)	(177)
Net gains on loans held for sale	(489)	(679)	(884)
Amortization of deferred loan fees	(149)	(162)	(231)
Origination of mortgage loans held for sale	(28,916)	(45,637)	(59,252)
Sales of mortgage loans held for sale	31,683	46,285	60,045
Decrease (increase) in accrued interest receivable	114	(487)	(59)
Increase (decrease) in accrued interest payable	302	114	(11)
Earnings on bank-owned life insurance	(536)	(571)	(675)
Deferred income taxes	2,665	4,303	414
Stock compensation expense	14	13	20
Other, net	(6,188)	(1,737)	(1,147)
Net cash provided by operating activities	<u>7,984</u>	<u>7,521</u>	<u>6,594</u>
INVESTING ACTIVITIES			
Purchase of investment securities – available for sale	(45,427)	(32,889)	(42,844)
Purchase of investment securities – held to maturity	(5,746)	(10,572)	(12,038)
Proceeds from maturities of investment securities – available for sale	16,299	22,311	24,574
Proceeds from maturities of investment securities – held to maturity	3,651	2,383	2,693
Proceeds from sales of investment securities – available for sale	9,466	8,143	8,966
Purchase of regulatory stock	(18,681)	(17,661)	(10,911)
Proceeds from redemption of regulatory stock	18,836	16,345	12,180
Long-term loans originated	(155,191)	(154,054)	(196,998)
Principal collected on long-term loans	193,936	157,258	189,505
Participations purchased	(13,943)	(11,804)	(17,192)
Participations sold	1,500	2,800	18,900
Net (increase) decrease in other short-term loans	89	(502)	(875)
Purchases of premises and equipment	(2,144)	(2,705)	(1,380)
Proceeds from sale of other real estate owned	46	108	235
Proceeds from life insurance policies	—	614	—
Net cash provided by (used in) investing activities	<u>2,691</u>	<u>(20,225)</u>	<u>(25,185)</u>
FINANCING ACTIVITIES			
Net (decrease) increase in deposit balances	1,226	(19,841)	64,492
Net increase (decrease) in other short-term borrowings	(8,055)	36,330	(35,994)
Principal borrowings on advances from Federal Home Loan Bank	12,492	12,687	9,542
Principal repayments on advances from Federal Home Loan Bank	(12,000)	(12,000)	(12,000)
Stock options exercised	61	160	74
Purchases of treasury stock	(2,346)	(3,404)	—
Preferred stock redemption	—	—	(21,000)
Preferred stock dividend paid	—	—	(15)
Common stock dividend paid	(1,347)	(1,113)	(945)
Net cash provided by (used in) financing activities	<u>(9,969)</u>	<u>12,819</u>	<u>4,154</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	706	115	(14,437)
CASH AND CASH EQUIVALENTS AT JANUARY 1	<u>34,188</u>	<u>34,073</u>	<u>48,510</u>
CASH AND CASH EQUIVALENTS AT DECEMBER 31	<u>\$ 34,894</u>	<u>\$ 34,188</u>	<u>\$ 34,073</u>

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 and Hagerstown, Maryland. 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 \$2.1 billion that are not recognized on the Company's Consolidated Balance Sheets at December 31, 2018.

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 15 locations in Pennsylvania and 1 location in Maryland. 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 impairment 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. 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 of \$250,000 or less, residential mortgage loans and consumer loans. Individual loans within these pools are

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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.

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 5,000, 10,000, and 51,273 shares of common stock were outstanding during 2018, 2017 and 2016, 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 \$4.22, \$4.00, and \$3.23-\$4.60 during 2018, 2017 and 2016, 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,		
	2018	2017	2016
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Numerator:			
Net income	\$ 7,768	\$ 3,293	\$ 2,310
Preferred stock dividends	—	—	15
Net income available to common shareholders	\$ 7,768	\$ 3,293	\$ 2,295
Denominator:			
Weighted average common shares outstanding (basic)	17,933	18,498	18,896
Effect of stock options	104	102	59
Weighted average common shares outstanding (diluted)	18,037	18,600	18,955
Earnings per common share:			
Basic	\$ 0.43	\$ 0.18	\$ 0.12
Diluted	0.43	0.18	0.12

STOCK-BASED COMPENSATION:

The Company uses the modified prospective method for accounting of stock-based compensation. The fair value of each option grant is estimated on the grant date using the Binomial option pricing model and the expense is recognized ratably over the service period. Forfeitures are recognized as they occur. See Note 21 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 (Loss). 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 \$875,000 in income tax payments in 2018; \$1,075,000 in 2017; and \$375,000 in 2016. The Company had non-cash transfers to other real estate owned (OREO) in the amounts of \$166,000 in 2018; \$77,000 in 2017; and \$172,000 in 2016. The Company also had a non-cash transfer of the AMT credit carryforward to other assets in the amount of \$287,000 in 2018. The Company made total interest payments of \$11,298,000 in 2018; \$8,681,000 in 2017; and \$7,746,000 in 2016.

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.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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 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 17 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.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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. See Note 3 for information related to the adoption of ASU 2016-01.

2. 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. As of January 1, 2019, the Company had eight leases outstanding. Each lease has been evaluated for proper classification under Topic 842 and, based on this preliminary analysis, the Company expects to record right-of-use assets and lease liabilities ranging from \$3.5 to \$4.5 million. 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 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. We are currently working with an industry leading third-party consultant and software provider to assist us in the implementation of this standard. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the 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.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. RECENT ACCOUNTING PRONOUNCEMENTS – (continued)

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.

3. 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 4.

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.

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 15 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 December 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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. ADOPTION OF ACCOUNTING STANDARDS – (continued)

transaction between market participants at the measurement date. There is no active observable market for sale information on many types of 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 \$(86,000), \$(207,000), and \$(488,000) for the years ending December 31, 2018, 2017, and 2016, respectively, from Salaries and employee benefits into Other expense on the Consolidated Statement of Operations. See Note 17 for additional information on the presentation of these pension cost components.

4. 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 net realized gains (losses) on investment securities, mortgage related fees, net gains on loans held for sale, and bank owned life insurance 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 79.1% of the total revenue of the Company.

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

- **Wealth management fees** — Wealth management fee 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. Also included within wealth management fees are commissions from the sale of mutual funds, annuities, and life insurance products. 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.
- **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.
- **Other non-interest income** — Other non-interest income consists of other recurring revenue streams such as safe deposit box rental fees, gain (loss) on sale of other real estate owned and other miscellaneous revenue streams. 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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. REVENUE RECOGNITION – (continued)

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 non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2018, 2017, and 2016 (in thousands).

	AT DECEMBER 31,		
	2018	2017	2016
Non-interest income:			
In-scope of Topic 606			
Wealth management fees	\$ 9,659	\$ 9,170	\$ 8,747
Service charges on deposit accounts	1,420	1,581	1,674
Other	1,720	1,665	1,642
Non-interest income (in-scope of topic 606)	12,799	12,416	12,063
Non-interest income (out-of-scope of topic 606)	1,425	2,229	2,575
Total non-interest income	\$14,224	\$14,645	\$14,638

5. CASH AND DUE FROM DEPOSITORY INSTITUTIONS

Included in “Cash and due from depository institutions” are required federal reserves of \$3.6 million for December 31, 2018 and \$5.2 million for December 31, 2017, 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.

6. INVESTMENT SECURITIES

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

Investment securities available for sale:

	AT DECEMBER 31, 2018			FAIR VALUE
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	
	(IN THOUSANDS)			
U.S. Agency	\$ 7,685	\$ 4	\$ (160)	\$ 7,529
Municipal	13,301	114	(234)	13,181
Corporate bonds	37,359	131	(996)	36,494
U.S. Agency mortgage-backed securities	90,169	516	(1,158)	89,527
Total	\$148,514	\$765	\$(2,548)	\$146,731

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENT SECURITIES – (continued)

Investment securities held to maturity:

	AT DECEMBER 31, 2018			FAIR VALUE
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	
	(IN THOUSANDS)			
U.S. Agency mortgage-backed securities	\$ 9,983	\$ 78	\$(132)	\$ 9,929
Municipal	24,740	131	(404)	24,467
Corporate bonds and other securities	6,037	13	(122)	5,928
Total	<u>\$40,760</u>	<u>\$222</u>	<u>\$(658)</u>	<u>\$40,324</u>

Investment securities available for sale:

	AT DECEMBER 31, 2017			FAIR VALUE
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	
	(IN THOUSANDS)			
U.S. Agency	\$ 6,612	\$ —	\$ (40)	\$ 6,572
Municipal	7,198	27	(189)	7,036
Corporate bonds	35,886	322	(424)	35,784
U.S. Agency mortgage-backed securities	79,854	611	(719)	79,746
Total	<u>\$129,550</u>	<u>\$960</u>	<u>\$(1,372)</u>	<u>\$129,138</u>

Investment securities held to maturity:

	AT DECEMBER 31, 2017			FAIR VALUE
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	
	(IN THOUSANDS)			
U.S. Agency mortgage-backed securities	\$ 9,740	\$149	\$ (45)	\$ 9,844
Municipal	22,970	203	(238)	22,935
Corporate bonds and other securities	6,042	38	(48)	6,032
Total	<u>\$38,752</u>	<u>\$390</u>	<u>\$(331)</u>	<u>\$38,811</u>

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, 2018, 57.5% of the portfolio was rated AAA as compared to 57.8% at December 31, 2017. Approximately 10.0% and 9.7% of the portfolio was rated below A or unrated on December 31, 2018 and 2017, respectively. 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, 2018.

The book value of securities, both available for sale and held to maturity, pledged to secure public and trust deposits was \$115,536,000 at December 31, 2018 and \$117,181,000 at December 31, 2017.

The Company realized \$15,000 of gross investment security gains and \$454,000 of gross investment security losses in 2018, \$115,000 of gross investment security gains in 2017, and \$183,000 of gross investment gains and \$6,000 of gross investment security losses in 2016. On a net basis, the realized loss for 2018 was \$347,000 after factoring in a tax benefit of \$92,000, the realized gain for 2017 was \$76,000 after factoring in tax expense of \$39,000, and the realized gain for 2016 was \$117,000 after factoring in tax

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENT SECURITIES – (continued)

expense of \$60,000. Proceeds from sales of investment securities available for sale were \$9.5 million for 2018, \$8.1 million for 2017, and \$9.0 million during 2016.

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, 2018. 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 3.67 years. The weighted average expected maturity for available for sale securities at December 31, 2018 for U.S. Agency, U.S. Agency Mortgage-Backed, Corporate Bond, and Municipal securities was 8.91, 5.65, 4.30, and 5.73 years, respectively. The weighted average expected maturity for held to maturity securities at December 31, 2018 for U.S. Agency Mortgage-Backed, Corporate Bond/other securities, and Municipal securities 6.09, 3.73, and 6.65 years, respectively.

Investment securities available for sale:

	AT DECEMBER 31, 2018								TOTAL INVESTMENT SECURITIES AVAILABLE FOR SALE	
	U. S. AGENCY		U.S. AGENCY MORTGAGE-BACKED SECURITIES		CORPORATE BONDS		MUNICIPAL			
	(IN THOUSANDS, EXCEPT YIELDS)									
COST BASIS										
Within 1 year	\$ —	—%	\$ 26	3.29%	\$ 1,000	2.69%	\$ —	—%	\$ 1,026	2.71%
After 1 year but within 5 years	2,400	2.91	1,334	1.86	15,656	3.80	1,987	2.86	21,377	3.49
After 5 years but within 10 years	2,443	2.94	10,977	3.00	20,703	4.22	11,314	3.27	45,437	3.61
After 10 years but within 15 years	—	—	27,295	2.82	—	—	—	—	27,295	2.82
Over 15 years	2,842	2.69	50,537	2.97	—	—	—	—	53,379	2.96
Total	<u>\$7,685</u>	2.84	<u>\$90,169</u>	2.91	<u>\$37,359</u>	4.00	<u>\$13,301</u>	3.21	<u>\$148,514</u>	<u>3.21</u>
FAIR VALUE										
Within 1 year	\$ —		\$ 26		\$ 995		\$ —		\$ 1,021	
After 1 year but within 5 years	2,386		1,320		15,380		1,981		21,067	
After 5 years but within 10 years	2,401		10,986		20,119		11,200		44,706	
After 10 years but within 15 years	—		27,012		—		—		27,012	
Over 15 years	2,742		50,183		—		—		52,925	
Total	<u>\$7,529</u>		<u>\$89,527</u>		<u>\$36,494</u>		<u>\$13,181</u>		<u>\$146,731</u>	

Investment securities held to maturity:

	AT DECEMBER 31, 2018								TOTAL INVESTMENT SECURITIES HELD TO MATURITY	
	U.S. AGENCY MORTGAGE-BACKED SECURITIES		CORPORATE BONDS AND OTHER		MUNICIPAL					
	(IN THOUSANDS, EXCEPT YIELDS)									
COST BASIS										
Within 1 year	\$ —	—%	\$ 1,000	1.65%	\$ —	—%	\$ 1,000	1.65%	\$ 1,000	1.65%
After 1 year but within 5 years	902	2.09	2,000	3.40	1,176	2.96	4,078	2.98	4,078	2.98
After 5 years but within 10 years	1,127	2.82	3,037	4.40	15,477	3.38	19,641	3.51	19,641	3.51
After 10 years but within 15 years	2,662	3.68	—	—	7,772	3.90	10,434	3.84	10,434	3.84
Over 15 years	5,292	3.17	—	—	315	3.50	5,607	3.19	5,607	3.19
Total	<u>\$9,983</u>	3.17	<u>\$6,037</u>	3.61	<u>\$24,740</u>	3.52	<u>\$40,760</u>	3.45	<u>\$40,760</u>	3.45
FAIR VALUE										
Within 1 year	\$ —		\$ 944		\$ —		\$ 944		\$ 944	
After 1 year but within 5 years	882		1,982		1,171		4,035		4,035	
After 5 years but within 10 years	1,123		3,002		15,296		19,421		19,421	
After 10 years but within 15 years	2,702		—		7,706		10,408		10,408	
Over 15 years	5,222		—		294		5,516		5,516	
Total	<u>\$9,929</u>		<u>\$5,928</u>		<u>\$24,467</u>		<u>\$40,324</u>		<u>\$40,324</u>	

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENT SECURITIES – (continued)

The following table presents information concerning investments with unrealized losses as of December 31, 2018 (in thousands):

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Total investment securities:						
U.S. Agency	\$ 244	\$ (6)	\$ 5,631	\$ (154)	\$ 5,875	\$ (160)
U.S. Agency mortgage-backed securities	17,718	(177)	39,983	(1,113)	57,701	(1,290)
Municipal	6,601	(71)	15,880	(567)	22,481	(638)
Corporate bonds and other securities	15,221	(440)	17,038	(678)	32,259	(1,118)
Total	\$39,784	\$(694)	\$78,532	\$(2,512)	\$118,316	\$(3,206)

The following table presents information concerning investments with unrealized losses as of December 31, 2017 (in thousands):

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Total investment securities:						
U.S. Agency	\$ 5,923	\$ (39)	\$ 399	\$ (1)	\$ 6,322	\$ (40)
U.S. Agency mortgage-backed securities	36,783	(253)	22,625	(511)	59,408	(764)
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 176 positions that are considered temporarily impaired at December 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 or mature.

7. LOANS

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,	
	2018	2017
	(IN THOUSANDS)	
Commercial:		
Commercial and industrial	\$158,279	\$159,192
Commercial loans secured by owner occupied real estate	91,905	89,935
Commercial loans secured by non-owner occupied real estate	356,543	373,845
Real estate – residential mortgage	237,964	247,278
Consumer	17,591	19,383
Loans, net of unearned income	\$862,282	\$889,633

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. LOANS – (continued)

Loan balances at December 31, 2018 and 2017 are net of unearned income of \$322,000 and \$399,000, respectively. Real estate construction loans comprised 3.5% and 4.1% of total loans net of unearned income at December 31, 2018 and 2017, 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, 2018 and 2017, 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 \$694,000 and \$554,000 at December 31, 2018 and 2017, respectively.

8. 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, 2017	CHARGE- OFFS	RECOVERIES	PROVISION (CREDIT)	BALANCE AT DECEMBER 31, 2018
Commercial	\$ 4,298	\$ (574)	\$ 31	\$(698)	\$3,057
Commercial loans secured by					
non-owner occupied real estate . . .	3,666	—	51	(328)	3,389
Real estate – residential mortgage . . .	1,102	(380)	119	394	1,235
Consumer	128	(251)	61	189	127
Allocation for general risk	1,020	—	—	(157)	863
Total	<u>\$10,214</u>	<u>\$(1,205)</u>	<u>\$262</u>	<u>\$(600)</u>	<u>\$8,671</u>
	BALANCE AT DECEMBER 31, 2016	CHARGE- OFFS	RECOVERIES	PROVISION (CREDIT)	BALANCE AT DECEMBER 31, 2017
Commercial	\$4,041	\$(311)	\$ 27	\$541	\$ 4,298
Commercial loans secured by					
non-owner occupied real estate . . .	3,584	(132)	56	158	3,666
Real estate – residential mortgage . . .	1,169	(313)	207	39	1,102
Consumer	151	(172)	120	29	128
Allocation for general risk	987	—	—	33	1,020
Total	<u>\$9,932</u>	<u>\$(928)</u>	<u>\$410</u>	<u>\$800</u>	<u>\$10,214</u>
	BALANCE AT DECEMBER 31, 2015	CHARGE- OFFS	RECOVERIES	PROVISION (CREDIT)	BALANCE AT DECEMBER 31, 2016
Commercial	\$4,243	\$(3,662)	\$169	\$3,291	\$4,041
Commercial loans secured by					
non-owner occupied real estate . . .	3,449	(82)	58	159	3,584
Real estate – residential mortgage . . .	1,174	(208)	100	103	1,169
Consumer	151	(344)	30	314	151
Allocation for general risk	904	—	—	83	987
Total	<u>\$9,921</u>	<u>\$(4,296)</u>	<u>\$357</u>	<u>\$3,950</u>	<u>\$9,932</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. ALLOWANCE FOR LOAN LOSSES – (continued)

For 2018, the Company recorded a negative loan loss provision of \$600,000 compared to an \$800,000 provision expense for 2017, or a decrease of \$1.4 million between years. The negative 2018 provision reflects our overall strong asset quality, reduced loan portfolio balance and the successful workout of several criticized loans. The Company experienced net loan charge-offs of \$943,000, or 0.11% of total loans, in 2018 compared to net loan charge-offs of \$518,000, or 0.06% of total loans, in 2017. The higher 2018 net loan charge-offs reflect the final workout of several non-performing loans on which reserves had previously been established. Overall, the Company continued to maintain outstanding asset quality as its nonperforming assets totaled \$1.4 million, or only 0.16% of total loans, at December 31, 2018.

Specifically, the 2018 negative provision within the commercial segment was driven by a sharp decline in impaired assets, which directly impacted the specific reserves allocated to this loan segment, coupled with reduced historical loss factors, as the balance within the segment was generally stable year over year. The negative provision within the commercial loans secured by non-owner occupied real estate segment was the result of reduced historical loss factors and a reduction in loan balances. The reduction in the allocation for general risk was a result of the overall reduction in the aggregate reserve balance.

For 2017, the Company recorded an \$800,000 provision for loan losses compared to a \$3,950,000 provision for loan losses in 2016, or a decrease of \$3.2 million between years. Both, the loan loss provision and net charge-offs were at more typical levels in 2017 than the substantially higher levels that were necessary early in 2016 to resolve a troubled loan exposure to the energy industry. The Company experienced net loan charge-offs of \$518,000, or 0.06% of total loans in 2017 compared to net loan charge-offs of \$3.9 million, or 0.44%, of total loans in 2016. Nonperforming assets totaled \$3.0 million, or 0.34%, 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.

AT DECEMBER 31, 2018 (IN THOUSANDS)					
Loans:	COMMERCIAL	COMMERCIAL LOANS SECURED BY NON-OWNER OCCUPIED REAL ESTATE	REAL ESTATE – RESIDENTIAL MORTGAGE	CONSUMER	TOTAL
Individually evaluated for impairment . . .	\$ —	\$ 11	\$ —	\$ —	\$ 11
Collectively evaluated for impairment . . .	<u>250,184</u>	<u>356,532</u>	<u>237,964</u>	<u>17,591</u>	<u>862,271</u>
Total loans	<u>\$250,184</u>	<u>\$356,543</u>	<u>\$237,964</u>	<u>\$17,591</u>	<u>\$862,282</u>

AT DECEMBER 31, 2018 (IN THOUSANDS)						
Allowance for loan losses:	COMMERCIAL	COMMERCIAL LOANS SECURED BY NON-OWNER OCCUPIED REAL ESTATE	REAL ESTATE – RESIDENTIAL MORTGAGE	CONSUMER	ALLOCATION FOR GENERAL RISK	TOTAL
Specific reserve						
allocation	\$ —	\$ 11	\$ —	\$ —	\$ —	\$ 11
General reserve						
allocation	<u>3,057</u>	<u>3,378</u>	<u>1,235</u>	<u>127</u>	<u>863</u>	<u>8,660</u>
Total allowance for loan losses	<u>\$3,057</u>	<u>\$3,389</u>	<u>\$1,235</u>	<u>\$127</u>	<u>\$863</u>	<u>\$8,671</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. ALLOWANCE FOR LOAN LOSSES – (continued)

AT DECEMBER 31, 2017 (IN THOUSANDS)					
<u>Loans:</u>	COMMERCIAL LOANS SECURED BY NON-OWNER OCCUPIED REAL ESTATE		REAL ESTATE – RESIDENTIAL MORTGAGE	CONSUMER	TOTAL
	COMMERCIAL	REAL ESTATE	MORTGAGE	CONSUMER	TOTAL
Individually evaluated for impairment . .	\$ 1,213	\$ 547	\$ —	\$ —	\$ 1,760
Collectively evaluated for impairment . .	247,914	373,298	247,278	19,383	887,873
Total loans	<u>\$249,127</u>	<u>\$373,845</u>	<u>\$247,278</u>	<u>\$19,383</u>	<u>\$889,633</u>

AT DECEMBER 31, 2017 (IN THOUSANDS)						
<u>Allowance for loan losses:</u>	COMMERCIAL LOANS SECURED BY NON-OWNER OCCUPIED REAL ESTATE		REAL ESTATE – RESIDENTIAL MORTGAGE	CONSUMER	ALLOCATION FOR GENERAL RISK	TOTAL
	COMMERCIAL	REAL ESTATE	MORTGAGE	CONSUMER	GENERAL RISK	TOTAL
Specific reserve allocation	\$ 909	\$ —	\$ —	\$ —	\$ —	\$ 909
General reserve allocation	3,389	3,666	1,102	128	1,020	9,305
Total allowance for loan losses	<u>\$4,298</u>	<u>\$3,666</u>	<u>\$1,102</u>	<u>\$128</u>	<u>\$1,020</u>	<u>\$10,214</u>

The segments of the Company’s loan portfolio are disaggregated into classes that allows management to monitor risk and performance. The loan classes 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. The commercial loan segment includes both the commercial and industrial and the owner occupied commercial real estate loan classes while the remaining segments are not separated into classes as management monitors risk in these loans at the segment level. 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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. ALLOWANCE FOR LOAN LOSSES – (continued)

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 real estate collateral 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.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. ALLOWANCE FOR LOAN LOSSES – (continued)

The following tables present impaired loans by portfolio segment, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary.

AT DECEMBER 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
(IN THOUSANDS)					
Commercial loans secured by non-owner occupied real estate	\$11	\$11	\$—	\$11	\$33
Total impaired loans	<u>\$11</u>	<u>\$11</u>	<u>\$—</u>	<u>\$11</u>	<u>\$33</u>

AT 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
(IN THOUSANDS)					
Commercial	\$1,202	\$909	\$ 11	\$1,213	\$1,215
Commercial loans secured by non-owner occupied real estate	—	—	547	547	600
Total impaired loans	<u>\$1,202</u>	<u>\$909</u>	<u>\$558</u>	<u>\$1,760</u>	<u>\$1,815</u>

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

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
(IN THOUSANDS)			
Average impaired balance:			
Commercial	\$228	\$1,075	\$ 718
Commercial loans secured by non-owner occupied real estate	12	838	356
Average investment in impaired loans	<u>\$240</u>	<u>\$1,913</u>	<u>\$1,074</u>
Interest income recognized:			
Commercial	\$ —	\$ 12	\$ —
Commercial loans secured by non-owner occupied real estate	—	—	—
Interest income recognized on a cash basis on impaired loans	<u>\$ —</u>	<u>\$ 12</u>	<u>\$ —</u>

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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. ALLOWANCE FOR LOAN LOSSES – (continued)

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 2018 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 \$2,000,000, all credits rated Special Mention or Substandard with aggregate balances greater than \$250,000, and all credits rated Doubtful with aggregate balances greater than \$100,000 on an individual basis to the Company's Loan Loss Reserve Committee on a quarterly basis. Additionally, the Asset Quality Task Force, which is a group comprised of senior level personnel, meets monthly to monitor the status of problem loans.

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

	AT DECEMBER 31, 2018				
	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	TOTAL
	(IN THOUSANDS)				
Commercial and industrial	\$154,510	\$ 2,089	\$1,680	\$—	\$158,279
Commercial loans secured by owner occupied real estate	86,997	3,769	1,139	—	91,905
Commercial loans secured by non-owner occupied real estate	349,954	6,316	262	11	356,543
Total	<u>\$591,461</u>	<u>\$12,174</u>	<u>\$3,081</u>	<u>\$11</u>	<u>\$606,727</u>
	AT DECEMBER 31, 2017				
	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	TOTAL
	(IN THOUSANDS)				
Commercial and industrial	\$156,448	\$ 500	\$2,000	\$244	\$159,192
Commercial loans secured by owner occupied real estate	87,215	1,675	759	286	89,935
Commercial loans secured by non-owner occupied real estate	362,805	10,153	874	13	373,845
Total	<u>\$606,468</u>	<u>\$12,328</u>	<u>\$3,633</u>	<u>\$543</u>	<u>\$622,972</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. ALLOWANCE FOR LOAN LOSSES – (continued)

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

	<u>AT DECEMBER 31, 2018</u>	
	<u>PERFORMING</u>	<u>NON- PERFORMING</u>
	(IN THOUSANDS)	
Real estate – residential mortgage	\$236,754	\$1,210
Consumer	17,591	—
Total	<u>\$254,345</u>	<u>\$1,210</u>

	<u>AT DECEMBER 31, 2017</u>	
	<u>PERFORMING</u>	<u>NON- PERFORMING</u>
	(IN THOUSANDS)	
Real estate – residential mortgage	\$246,021	\$1,257
Consumer	19,383	—
Total	<u>\$265,404</u>	<u>\$1,257</u>

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.

	<u>AT DECEMBER 31, 2018</u>						
	<u>CURRENT</u>	<u>30 – 59 DAYS PAST DUE</u>	<u>60 – 89 DAYS PAST DUE</u>	<u>90 DAYS PAST DUE</u>	<u>TOTAL PAST DUE</u>	<u>TOTAL LOANS</u>	<u>90 DAYS PAST DUE AND STILL ACCRUING</u>
	(IN THOUSANDS)						
Commercial and industrial	\$158,279	\$ —	\$ —	\$ —	\$ —	\$158,279	\$—
Commercial loans secured by owner occupied real estate	91,905	—	—	—	—	91,905	—
Commercial loans secured by non-owner occupied real estate	355,963	580	—	—	580	356,543	—
Real estate – residential mortgage	232,465	3,651	472	1,376	5,499	237,964	—
Consumer	17,408	153	30	—	183	17,591	—
Total	<u>\$856,020</u>	<u>\$4,384</u>	<u>\$502</u>	<u>\$1,376</u>	<u>\$6,262</u>	<u>\$862,282</u>	<u>\$—</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. ALLOWANCE FOR LOAN LOSSES – (continued)

	AT DECEMBER 31, 2017						
	<u>CURRENT</u>	<u>30 – 59 DAYS PAST DUE</u>	<u>60 – 89 DAYS PAST DUE</u>	<u>90 DAYS PAST DUE</u>	<u>TOTAL PAST DUE</u>	<u>TOTAL LOANS</u>	<u>90 DAYS PAST DUE AND STILL ACCRUING</u>
	(IN THOUSANDS)						
Commercial and industrial	\$159,181	\$ —	\$ —	\$ 11	\$ 11	\$159,192	\$—
Commercial loans secured by owner occupied real estate	89,649	—	—	286	286	89,935	—
Commercial loans secured by non-owner occupied real estate	368,073	5,238	534	—	5,772	373,845	—
Real estate – residential mortgage	243,393	2,373	671	841	3,885	247,278	—
Consumer	<u>19,262</u>	<u>76</u>	<u>45</u>	<u>—</u>	<u>121</u>	<u>19,383</u>	<u>—</u>
Total	<u>\$879,558</u>	<u>\$7,687</u>	<u>\$1,250</u>	<u>\$1,138</u>	<u>\$10,075</u>	<u>\$889,633</u>	<u>\$—</u>

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

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

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

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

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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. ALLOWANCE FOR LOAN LOSSES – (continued)

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.

9. NON-PERFORMING ASSETS INCLUDING TROUBLED DEBT RESTRUCTURINGS

Non-performing assets are comprised of (i) loans which are on a non-accrual basis, (ii) loans which are contractually past due 90 days or more as to interest or principal payments, (iii) performing loans classified as TDR and (iv) OREO (real estate acquired through foreclosure, in-substance foreclosures and repossessed assets).

The following table presents information concerning non-performing assets including TDR:

	AT DECEMBER 31,	
	2018	2017
	(IN THOUSANDS, EXCEPT PERCENTAGES)	
Non-accrual loans:		
Commercial and industrial	\$ —	\$ 353
Commercial loans secured by owner occupied real estate	—	859
Commercial loans secured by non-owner occupied real estate	11	547
Real estate – residential mortgage	<u>1,210</u>	<u>1,257</u>
Total	<u>1,221</u>	<u>3,016</u>
Other real estate owned:		
Commercial loans secured by owner occupied real estate	157	
Real estate – residential mortgage	—	18
Total	<u>157</u>	<u>18</u>
TDR’s not in non-accrual	—	—
Total non-performing assets including TDR	<u>\$1,378</u>	<u>\$3,034</u>
Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned	0.16%	0.34%

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

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

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

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

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

- the borrower is currently in default on their loan(s);
- the borrower has filed for bankruptcy;
- the borrower has insufficient cash flows to service their loan(s); and

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. NON-PERFORMING ASSETS INCLUDING TROUBLED DEBT RESTRUCTURINGS – (continued)

- the borrower is unable to obtain refinancing from other sources at a market rate similar to rates available to a non-troubled debtor.

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

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

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

Any loan modification where the loan currently maintains a criticized or classified risk rating, i.e. Special Mention, Substandard or Doubtful, or where the loan will be assigned a criticized or classified rating after the modification is evaluated to determine the need for TDR classification. The specific ALL reserve for loans modified as TDR’s was \$11,000 and \$748,000 as of December 31, 2018 and 2017, respectively.

The following table details the TDRs at December 31, 2018 (dollars in thousands).

<u>Loans in non-accrual status</u>	<u># of Loans</u>	<u>Current Balance</u>	<u>Concession Granted</u>
Commercial loan secured by non-owner occupied real estate	1	\$11	Extension of maturity date

The following table details the TDRs at December 31, 2017 (dollars in thousands).

<u>Loans in non-accrual status</u>	<u># of Loans</u>	<u>Current Balance</u>	<u>Concession Granted</u>
Commercial and industrial	2	\$343	Extension of maturity date
Commercial loans secured by owner occupied real estate	1	574	Extension of maturity date
Commercial loan secured by non-owner occupied real estate	1	13	Extension of maturity date

The following table details the TDRs at December 31, 2016 (dollars in thousands).

<u>Loans in non-accrual status</u>	<u># of Loans</u>	<u>Current Balance</u>	<u>Concession Granted</u>
Commercial and industrial	2	\$496	Extension of maturity date
Commercial loan secured by non-owner occupied real estate	1	16	Extension of maturity date

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. NON-PERFORMING ASSETS INCLUDING TROUBLED DEBT RESTRUCTURINGS – (continued)

In all instances where loans have been modified in troubled debt restructurings the pre- and post-modified balances are the same.

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

There were no loans that were modified as TDR's in the previous 12 months and defaulted during the reporting periods ending December 31, 2018, 2017 or 2016, respectively

All TDRs are individually evaluated for impairment and a related allowance is recorded, as needed.

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. OREO is recorded at the lower of 1) fair value minus estimated costs to sell, or 2) carrying cost.

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,		
	2018	2017	2016
	(IN THOUSANDS)		
Interest income due in accordance with original terms	\$75	\$103	\$118
Interest income recorded	—	(75)	—
Net reduction in interest income	<u>\$75</u>	<u>\$ 28</u>	<u>\$118</u>

Foreclosed assets acquired in settlement of loans carried at fair value less estimated costs to sell are included in other assets on the Consolidated Balance Sheets. As of December 31, 2018 there were no residential real estate foreclosed assets included in other assets. As of December 31, 2017, a total of \$18,000 of residential real estate foreclosed assets were included in other assets. As of December 31, 2018, the Company had initiated formal foreclosure procedures on \$518,000 of consumer residential mortgages.

10. PREMISES AND EQUIPMENT

An analysis of premises and equipment follows:

	AT DECEMBER 31,	
	2018	2017
	(IN THOUSANDS)	
Land	\$ 1,198	\$ 1,198
Premises	27,160	25,745
Furniture and equipment	9,085	8,664
Leasehold improvements	461	483
Total at cost	<u>37,904</u>	<u>36,090</u>
Less: Accumulated depreciation and amortization	<u>24,556</u>	<u>23,356</u>
Premises and equipment, net	<u>\$13,348</u>	<u>\$12,734</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. PREMISES AND EQUIPMENT – (continued)

The Company recorded depreciation expense of \$1.5 million for 2018, \$1.7 million for 2017 and \$1.8 million for 2016.

The Company utilizes a contract cleaner to provide janitorial services for several office locations. The contract cleaner is owned by a Director of the Company. The amount paid to this related party totaled \$221,000, \$216,000, and \$229,000 for the years ending December 31, 2018, 2017, and 2016, respectively.

11. DEPOSITS

The following table sets forth the balance of the Company's deposits:

	AT DECEMBER 31,	
	2018	2017
	(IN THOUSANDS)	
Demand:		
Non-interest bearing	\$150,627	\$183,603
Interest bearing	202,235	170,343
Savings	97,406	96,583
Money market	221,398	238,119
Certificates of deposit in denominations of \$100,000 or more	34,841	30,297
Other time	242,664	229,000
Total deposits	<u>\$949,171</u>	<u>\$947,945</u>

The following table sets forth the balance of other time deposits and certificates of deposit of \$100,000 or more as of December 31, 2018 maturing in the periods presented:

YEAR:	OTHER TIME DEPOSITS	CERTIFICATES OF DEPOSIT OF \$100,000 OR MORE
	(IN THOUSANDS)	
2019	\$106,527	\$29,153
2020	81,124	4,688
2021	18,690	600
2022	10,247	—
2023	20,070	400
2024 and after	6,006	—
Total	<u>\$242,664</u>	<u>\$34,841</u>

The aggregate amount of time deposit accounts (including certificates of deposit) that meet or exceed the FDIC insurance limit of \$250,000 at December 31, 2018 and 2017 are \$61.1 million and \$49.7 million, respectively.

12. SHORT-TERM BORROWINGS

Short-term borrowings, which consist of federal funds purchased and other short-term borrowings are summarized as follows:

	AT DECEMBER 31, 2018	
	FEDERAL FUNDS PURCHASED	SHORT-TERM BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	\$ —	\$41,029
Maximum indebtedness at any month end	—	82,932
Average balance during year	54	33,073
Average rate paid for the year	1.70%	2.17%
Interest rate on year-end balance	—	2.62

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. SHORT-TERM BORROWINGS – (continued)

	<u>AT DECEMBER 31, 2017</u>	
	<u>FEDERAL FUNDS PURCHASED</u>	<u>SHORT-TERM BORROWINGS</u>
	(IN THOUSANDS, EXCEPT RATES)	
Balance	\$ —	\$49,084
Maximum indebtedness at any month end	—	51,760
Average balance during year	54	16,918
Average rate paid for the year	0.95%	1.21%
Interest rate on year-end balance	—	1.54

	<u>AT DECEMBER 31, 2016</u>	
	<u>FEDERAL FUNDS PURCHASED</u>	<u>OTHER SHORT-TERM BORROWINGS</u>
	(IN THOUSANDS, EXCEPT RATES)	
Balance	\$—	\$12,754
Maximum indebtedness at any month end	—	56,686
Average balance during year	—	9,030
Average rate paid for the year	—	0.58%
Interest rate on year-end balance	—	0.74

Average amounts outstanding during the year represent daily averages. Average interest rates represent interest expense divided by the related average balances.

These borrowing transactions can range from overnight to one year in maturity. The average maturity was one day at the end of 2018 and three days for 2017 and 2016.

13. ADVANCES FROM FEDERAL HOME LOAN BANK, GUARANTEED JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES AND SUBORDINATED DEBT

Advances from the FHLB consist of the following:

	<u>AT DECEMBER 31, 2018</u>	
<u>MATURING</u>	<u>WEIGHTED AVERAGE YIELD</u>	<u>BALANCE</u>
	(IN THOUSANDS, EXCEPT RATES)	
2019	1.51	\$12,500
2020	1.74	16,729
2021	2.28	9,496
2022	2.86	6,996
2023	2.86	1,000
Total advances from FHLB	1.98	<u>\$46,721</u>

	<u>AT DECEMBER 31, 2017</u>	
<u>MATURING</u>	<u>WEIGHTED AVERAGE YIELD</u>	<u>BALANCE</u>
	(IN THOUSANDS, EXCEPT RATES)	
2018	1.48	\$12,000
2019	1.51	12,500
2020	1.74	16,729
2021	1.75	5,000
Total advances from FHLB	1.61	<u>\$46,229</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. ADVANCES FROM FEDERAL HOME LOAN BANK, GUARANTEED JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES AND SUBORDINATED DEBT – (continued)

The Company's subsidiary Bank is a member of the FHLB which provides this subsidiary with 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 and certain types of commercial and commercial real estate loans. The rate on open repo plus advances, which are typically overnight borrowings, 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, commercial real estate, and commercial and industrial 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. At December 31, 2018, the Company had immediately available \$351 million of overnight borrowing capability at the FHLB, \$29 million of short-term borrowing availability at the Federal Reserve Bank and \$35 million of unsecured federal funds lines with correspondent banks.

Guaranteed Junior Subordinated Deferrable Interest Debentures:

On April 28, 1998, the Company completed a \$34.5 million public offering of 8.45% Trust Preferred Securities, which represent undivided beneficial interests in the assets of a Delaware business trust, AmeriServ Financial Capital Trust I. The Trust Preferred Securities will mature on June 30, 2028, and are callable at par at the option of the Company after June 30, 2003. Proceeds of the issue were invested by AmeriServ Financial Capital Trust I in Junior Subordinated Debentures issued by the Company. The Trust Preferred securities are listed on NASDAQ under the symbol ASRVP. The Company used \$22.5 million of proceeds from a private placement of common stock to redeem Trust Preferred Securities in 2005 and 2004. The net balance as of December 31, 2018 and 2017 was \$12.9 million.

Subordinated Debt:

On December 29, 2015, the Company completed a private placement of \$7.65 million in aggregate principal amount of fixed rate subordinated notes to certain accredited investors. The subordinated notes mature December 31, 2025 and have a 6.50% fixed interest rate for the entire term. This subordinated debt has been structured to qualify as Tier 2 capital under the Federal Reserve's capital guidelines and will be non-callable for five years. The Company used the proceeds from this private placement and other cash on hand to redeem all \$21 million of its issued and outstanding SBLF preferred stock on January 27, 2016. The net balance as of December 31, 2018 and 2017 was \$7.5 million.

14. DISCLOSURES ABOUT FAIR VALUE MEASUREMENTS

The following disclosures establish a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The three broad levels defined within this hierarchy are as follows:

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

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

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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. DISCLOSURES ABOUT FAIR VALUE MEASUREMENTS – (continued)

Assets and Liability Measured and Recorded on a Recurring Basis

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

The fair values of the fair value swaps used for interest rate risk management represents the amount the Company would be expected to receive or pay to terminate such agreements. These fair values are based on an external derivative valuation model using data inputs as of the valuation date and classified Level 2.

The following table presents the assets and liability measured and reported on the Consolidated Balance Sheets on a recurring basis at their fair value as of December 31, 2018 and 2017, by level within the fair value hierarchy (in thousands).

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2018 USING			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
U.S. Agency securities	\$ 7,529	\$—	\$ 7,529	\$—
Municipal securities	13,181	—	13,181	—
Corporate bonds	36,494	—	36,494	—
U.S. Agency mortgage-backed securities	89,527	—	89,527	—
Fair value swap asset	257	—	257	—
Fair value swap liability	(257)	—	(257)	—

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2017 USING			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
U.S. Agency securities	\$ 6,572	\$—	\$ 6,572	\$—
Municipal securities	7,036	—	7,036	—
Corporate bonds	35,784	—	35,784	—
U.S. Agency mortgage-backed securities	79,746	—	79,746	—
Fair value swap asset	92	—	92	—
Fair value swap liability	(92)	—	(92)	—

Assets Measured and Recorded on a Non-Recurring Basis

Loans considered impaired are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are reported at fair value of the underlying collateral if the repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on observable market data which at times are discounted. At December 31, 2018, impaired loans with a carrying value of \$11,000 were reduced by a specific valuation allowance totaling \$11,000 resulting in a net fair value of zero. At December 31, 2017, impaired loans with a carrying value of \$1.8 million were reduced by a specific valuation allowance totaling \$909,000 resulting in a net fair value of \$851,000.

Other real estate owned is measured at fair value based on appraisals, less estimated costs to sell at the date of foreclosure. Valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell. Income and expenses from operations and changes in valuation allowance are included in the net expenses from OREO.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. DISCLOSURES ABOUT FAIR VALUE MEASUREMENTS – (continued)

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

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2018 USING			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Impaired loans	\$ —	\$—	\$—	\$ —
Other real estate owned	157	—	—	157

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2017 USING			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Impaired loans	\$851	\$—	\$—	\$851
Other real estate owned	18	—	—	18

December 31, 2018	Quantitative Information About Level 3 Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Wgtd Ave)
Impaired loans	\$ —	Appraisal of collateral ^{(1),(3)}	Appraisal adjustments ⁽²⁾	100% (100)%
Other real estate owned	157	Appraisal of collateral ^{(1),(3)}	Appraisal adjustments ⁽²⁾	0% to 39% (8)%
			Liquidation expenses	21% to 195% (40)%

December 31, 2017	Quantitative Information About Level 3 Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Wgtd Ave)
Impaired loans	\$851	Appraisal of collateral ^{(1),(3)}	Appraisal adjustments ⁽²⁾	21% to 75% (54)%
Other real estate owned	18	Appraisal of collateral ^{(1),(3)}	Appraisal adjustments ⁽²⁾	16% to 64% (29)%
			Liquidation expenses	2% to 206% (79)%

- (1) Fair Value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.
- (2) Appraisals may be adjusted by management for qualitative factors such as economic conditions.
- (3) Includes qualitative adjustments by management and estimated liquidation expenses.

15. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair values have been determined by the Company using independent third party valuations that use the best available data (Level 2) and an estimation methodology (Level 3) the Company believes is suitable for each category of financial instruments. Management believes that cash and cash equivalents, bank owned life insurance, regulatory stock, accrued interest receivable and payable, deposits with no stated maturities, and short term borrowings have fair values which approximate the recorded carrying values. The fair value measurements for all of these financial instruments are Level 1 measurements.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS – (continued)

The estimation methodologies used, the fair values based on US GAAP measurements, and recorded carrying values at December 31, 2018 and 2017, for the remaining financial instruments not recorded at fair value on a recurring basis were as follows:

	AT DECEMBER 31, 2018				
	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
	(IN THOUSANDS)				
FINANCIAL ASSETS:					
Investment securities – HTM	40,760	40,324	—	37,398	2,926
Loans held for sale	847	871	871	—	—
Loans, net of allowance for loan loss and unearned income	853,611	836,122	—	—	836,122
FINANCIAL LIABILITIES:					
Deposits with stated maturities	277,505	277,010	—	—	277,010
All other borrowings	67,148	69,692	—	—	69,692
	AT DECEMBER 31, 2017				
	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
	(IN THOUSANDS)				
FINANCIAL ASSETS:					
Investment securities – HTM	38,752	38,811	—	35,859	2,952
Loans held for sale	3,125	3,173	3,173	—	—
Loans, net of allowance for loan loss and unearned income	879,419	873,784	—	—	873,784
FINANCIAL LIABILITIES:					
Deposits with stated maturities	259,297	260,153	—	—	260,153
All other borrowings	66,617	69,684	—	—	69,684

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

16. INCOME TAXES

The Tax Cuts and Jobs Act, enacted on December 22, 2017 lowered the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The expense for income taxes is summarized below:

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS)		
Current	<u>\$ (1,051)</u>	\$ 1,044	\$ 483
Deferred	<u>2,665</u>	1,679	414
Change in corporate tax rate	<u>—</u>	<u>2,624</u>	<u>—</u>
Income tax expense	<u>\$ 1,614</u>	<u>\$ 5,347</u>	<u>\$ 897</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. INCOME TAXES – (continued)

The reconciliation between the federal statutory tax rate and the Company’s effective consolidated income tax rate is as follows:

	YEAR ENDED DECEMBER 31,					
	2018		2017		2016	
	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	RATE
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Income tax expense based on						
federal statutory rate	\$1,970	21.0%	\$2,938	34.0%	\$1,090	34.0%
Tax exempt income	(131)	(1.4)	(283)	(3.3)	(255)	(7.9)
Other	(225)	(2.4)	68	0.8	62	1.9
Change in corporate tax rate	<u>—</u>	<u>—</u>	<u>2,624</u>	<u>30.4</u>	<u>—</u>	<u>—</u>
Total expense for income taxes	<u>\$1,614</u>	<u>17.2%</u>	<u>\$5,347</u>	<u>61.9%</u>	<u>\$ 897</u>	<u>28.0%</u>

The following table highlights the major components comprising the deferred tax assets and liabilities for each of the periods presented:

	AT DECEMBER 31,	
	2018	2017
	(IN THOUSANDS)	
DEFERRED TAX ASSETS:		
Allowance for loan losses	\$1,821	\$2,145
Unfunded commitment reserve	187	192
Unrealized investment security losses	374	87
Premises and equipment	1,056	804
Accrued pension obligation	144	948
Alternative minimum tax credits	—	1,724
Other	<u>255</u>	<u>219</u>
Total tax assets	<u>3,837</u>	<u>6,119</u>
DEFERRED TAX LIABILITIES:		
Investment accretion	(90)	(33)
Other	<u>(110)</u>	<u>(123)</u>
Total tax liabilities	<u>(200)</u>	<u>(156)</u>
Net deferred tax asset	<u>\$3,637</u>	<u>\$5,963</u>

At December 31, 2018 and 2017, the Company had no valuation allowance established against its deferred tax assets as we believe the Company will generate sufficient future taxable income to fully utilize these assets.

As a result of the Tax Cuts and Jobs Act, the Company’s AMT tax credits that are not used to reduce regular taxes are eligible for a 50% refund in 2018 to 2020 and a 100% refund in 2021. Due to this change, the AMT tax credit was reclassified to other assets in 2018 and amounted to approximately \$287,000 at December 31, 2018.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. INCOME TAXES – (continued)

The change in net deferred tax assets and liabilities consist of the following:

	YEAR ENDED DECEMBER 31,	
	2018	2017
	(IN THOUSANDS)	
Unrealized gains recognized in comprehensive income	\$ 288	\$ 53
Pension obligation of the defined benefit plan not yet recognized in income	51	(442)
Deferred provision for income taxes	(2,665)	(1,679)
Change in corporate tax rate	—	(2,624)
Net decrease	\$(2,326)	\$(4,692)

The Company utilizes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. The Company has no tax liability for uncertain tax positions. The Company's federal and state income tax returns for taxable years through 2014 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

17. EMPLOYEE BENEFIT PLANS

PENSION PLANS:

The Company has a noncontributory defined benefit pension plan covering all employees who work at least 1,000 hours per year. The participants shall have a vested interest in their accrued benefit after five full years of service. The benefits of the plan are based upon the employee's years of service and average annual earnings for the highest five consecutive calendar years during the final ten year period of employment. Effective January 1, 2013, the Company implemented a soft freeze of its defined benefit pension plan for non-union employees. A soft freeze means that all existing employees as of December 31, 2012 will remain in the defined benefit pension plan but any new non-union employees hired after January 1, 2013 will no longer be part of the defined benefit plan but instead will be offered retirement benefits under an enhanced 401K program. The Company implemented a similar soft freeze of its defined benefit pension plan for union employees effective January 1, 2014. The Company executed these changes to help reduce its pension costs in future years. Plan assets are primarily debt securities (including U.S. Treasury and Agency securities, corporate notes and bonds), listed common stocks (including shares of the Company's common stock valued at \$1.2 million and is limited to 10% of the plan's assets), mutual funds, and short-term cash equivalent instruments. The following actuarial tables are based upon data provided by an independent third party as of December 31, 2018.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. EMPLOYEE BENEFIT PLANS – (continued)

PENSION BENEFITS:

	YEAR ENDED DECEMBER 31,	
	2018	2017
	(IN THOUSANDS)	
CHANGE IN BENEFIT OBLIGATION:		
Benefit obligation at beginning of year	\$41,013	\$38,637
Service cost	1,482	1,516
Interest cost	1,273	1,292
Actuarial (gain) loss	823	1,588
Special/contractual termination benefits	63	—
Benefits paid	(3,560)	(2,020)
Benefit obligation at end of year	<u>41,094</u>	<u>41,013</u>
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	37,100	30,671
Actual return on plan assets	(1,062)	4,949
Employer contributions	6,000	3,500
Benefits paid	(3,560)	(2,020)
Fair value of plan assets at end of year	<u>38,478</u>	<u>37,100</u>
Funded status of the plan	<u>\$ (2,616)</u>	<u>\$ (3,913)</u>

	YEAR ENDED DECEMBER 31,	
	2018	2017
	(IN THOUSANDS)	
AMOUNTS NOT YET RECOGNIZED AS A COMPONENT OF NET PERIODIC PENSION COST:		
Amounts recognized in accumulated other comprehensive loss consists of:		
Net actuarial loss	<u>\$18,461</u>	<u>\$15,326</u>
Total	<u>\$18,461</u>	<u>\$15,326</u>

	YEAR ENDED DECEMBER 31,	
	2018	2017
	(IN THOUSANDS)	
ACCUMULATED BENEFIT OBLIGATION:		
Accumulated benefit obligation	<u>\$37,695</u>	<u>\$37,594</u>

The weighted-average assumptions used to determine benefit obligations at December 31, 2018 and 2017 were as follows:

	YEAR ENDED DECEMBER 31,	
	2018	2017
	(IN THOUSANDS)	
WEIGHTED AVERAGE ASSUMPTIONS:		
Discount rate	4.28%	3.63%
Salary scale	2.50	2.50

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. EMPLOYEE BENEFIT PLANS – (continued)

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS)		
COMPONENTS OF NET PERIODIC BENEFIT COST:			
Service cost	\$ 1,482	\$ 1,516	\$ 1,468
Interest cost	1,273	1,292	1,430
Expected return on plan assets	(2,798)	(2,539)	(2,275)
Special termination benefit liability	63	—	—
Recognized net actuarial loss	1,548	1,454	1,333
Net periodic pension cost	<u>\$ 1,568</u>	<u>\$ 1,723</u>	<u>\$ 1,956</u>

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS)		
OTHER CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE LOSS:			
Net (gain) loss	\$ 4,683	\$ (822)	\$ 6,505
Recognized loss	(1,548)	(1,454)	(1,333)
Total recognized in other comprehensive loss before tax effect	<u>\$ 3,135</u>	<u>\$(2,276)</u>	<u>\$ 5,172</u>
Total recognized in net benefit cost and other comprehensive loss before tax effect	<u>\$ 4,703</u>	<u>\$ (553)</u>	<u>\$ 7,128</u>

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is \$1,610,000.

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2018, 2017 and 2016 were as follows:

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
WEIGHTED AVERAGE ASSUMPTIONS:			
Discount rate	3.63%	4.12%	4.20%
Expected return on plan assets	7.50	7.75	7.75
Rate of compensation increase	2.50	2.50	2.50

The Company has assumed a 7.50% long-term expected return on plan assets. This assumption was based upon the plan’s historical investment performance over a longer-term period of 15 years combined with the plan’s investment objective of balanced growth and income. Additionally, this assumption also incorporates a targeted range for equity securities of approximately 60% of plan assets.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. EMPLOYEE BENEFIT PLANS – (continued)

PLAN ASSETS:

The plan’s measurement date is December 31, 2018. This plan’s asset allocations at December 31, 2018 and 2017, by asset category are as follows:

ASSET CATEGORY:	YEAR ENDED DECEMBER 31,	
	2018	2017
Cash and cash equivalents	49%	—%
Domestic equities	7	12
Mutual funds/ETFs	42	82
International equities	—	4
Corporate bonds	2	2
Total	100%	100%

The major categories of assets in the Company’s Pension Plan as of year-end are presented in the following table. Assets are segregated by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 utilized to measure fair value.

	YEAR ENDED DECEMBER 31,	
	2018	2017
(IN THOUSANDS)		
Level 1:		
Cash and cash equivalents	\$18,939	\$ 44
Domestic equities	2,841	4,340
Mutual funds/ETFs	15,808	30,470
International equities	—	1,322
Level 2:		
Corporate bonds	890	924
Total fair value of plan assets	\$38,478	\$37,100

Cash and cash equivalents may include uninvested cash balances along with money market mutual funds, treasury bills, or other assets normally categorized as cash equivalents. Domestic equities may include common or preferred stocks, covered options, rights or warrants, or American Depository Receipts which are traded on any U.S. equity market. Mutual funds/ETFs may include any equity, fixed income, balanced, international, or global mutual fund or exchange traded fund including any propriety fund managed by the Trust Company. Agencies may include any U.S. government agency security or asset-backed security. Collective investment funds may include equity, fixed income, or balanced collective investment funds managed by the Trust Company. Corporate bonds may include any corporate bond or note.

The investment strategy objective for the pension plan is a balance of growth and income. This objective seeks to develop a portfolio for acceptable levels of current income together with the opportunity for capital appreciation. The balanced growth and income objective reflects a relatively equal balance between equity and fixed income investments such as debt securities. The allocation between equity and fixed income assets may vary by a moderate degree but the plan typically targets a range of equity investments between 50% and 60% of the plan assets. This means that fixed income and cash investments typically approximate 40% to 50% of the plan assets. The plan is also able to invest in ASRV common stock up to a maximum level of 10% of the

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. EMPLOYEE BENEFIT PLANS – (continued)

market value of the plan assets (at December 31, 2018, 3.1% of the plan assets were invested in ASRV common stock). This asset mix is intended to ensure that there is a steady stream of cash from maturing investments to fund benefit payments.

CASH FLOWS:

The Company presently expects that the contribution to be made to the Plan in 2019 will be approximately \$2.0 million.

ESTIMATED FUTURE BENEFIT PAYMENTS:

The following benefit payments, which reflect future service, as appropriate, are expected to be paid.

<u>YEAR:</u>	<u>ESTIMATED FUTURE BENEFIT PAYMENTS</u> (IN THOUSANDS)
2019	\$ 2,974
2020	3,362
2021	3,100
2022	3,661
2023	3,357
Years 2024 – 2028	15,340

401(k) PLAN:

The Company maintains a qualified 401(k) plan that allows for participation by Company employees. Under the plan, employees may elect to make voluntary, pretax contributions to their accounts which the Company will match one half on the first 2% of contribution up to a maximum of 1%. The Company also contributes 4% of salaries for union members who are in the plan. Effective January 1, 2013, any new non-union employees receive a 4% non-elective contribution and these employees may elect to make voluntary, pretax contributions to their accounts which the Company will match one half on the first 6% of contribution up to a maximum of 3%. Effective January 1, 2014, any new union employees receive a 4% non-elective contribution and these employees may elect to make voluntary, pretax contributions to their accounts which the Company will match dollar for dollar up to a maximum of 4%. Contributions by the Company charged to operations were \$503,000, \$469,000 and \$447,000 for the years ended December 31, 2018, 2017 and 2016, respectively. The fair value of plan assets includes \$1.2 million pertaining to the value of the Company's common stock and Trust Preferred securities that are held by the plan at December 31, 2018.

Except for the above benefit plans, the Company has no significant additional exposure for any other post-retirement or post-employment benefits.

18. LEASE COMMITMENTS

The Company's obligation for future minimum lease payments on operating leases at December 31, 2018, is as follows:

<u>YEAR:</u>	<u>FUTURE MINIMUM LEASE PAYMENTS</u> (IN THOUSANDS)
2019	\$ 409
2020	406
2021	350
2022	347
2023	345
2024 and thereafter	1,649

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. LEASE COMMITMENTS – (continued)

In addition to the amounts set forth above, certain of the leases require payments by the Company for taxes, insurance, and maintenance. Rent expense included in total non-interest expense amounted to \$415,000, \$571,000 and \$767,000, in 2018, 2017, and 2016, respectively.

19. COMMITMENTS AND CONTINGENT LIABILITIES

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. Commitments to extend credit are obligations to lend to a customer as long as there is no violation of any condition established in the loan agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. Collateral which secures these types of commitments is the same as for other types of secured lending such as accounts receivable, inventory, fixed assets, and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including normal business activities, bond financings, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Letters of credit are issued both on an unsecured and secured basis. Collateral securing these types of transactions is similar to collateral securing the Company's commercial loans.

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. At December 31, 2018, the Company had various outstanding commitments to extend credit approximating \$177.8 million and standby letters of credit of \$16.7 million, compared to commitments to extend credit of \$165.1 million and standby letters of credit of \$10.0 million at December 31, 2017. Standby letters of credit had terms ranging from 1 to 5 years with annual extension options available. Standby letters of credit of approximately \$11.0 million were secured as of December 31, 2018 and approximately \$5.1 million at December 31, 2017. The carrying amount of the liability for AmeriServ obligations related to unfunded commitments and standby letters of credit was \$889,000 at December 31, 2018 and \$915,000 at December 31, 2017.

Pursuant to its bylaws, the Company provides indemnification to its directors and officers against certain liabilities incurred as a result of their service on behalf of the Company. In connection with this indemnification obligation, the Company can advance on behalf of covered individuals costs incurred in defending against certain claims. Additionally, the Company is also subject to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of the Company, neither the resolution of these claims nor the funding of these credit commitments will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

20. PREFERRED STOCK

SBLF:

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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. PREFERRED STOCK – (continued)

favorable rates. The Company used the proceeds from the Series E Preferred Stock issued to the US Treasury to repurchase all 21,000 shares of its outstanding preferred shares previously issued to the US Treasury under the Capital Purchase Program.

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

21. STOCK COMPENSATION PLANS

The Company uses the modified prospective method for accounting for stock-based compensation and recognized \$17,000 of pretax compensation expense for the year 2018, \$20,000 in 2017 and \$31,000 in 2016.

During 2011, the Company’s Board adopted, and its shareholders approved, the AmeriServ Financial, Inc. 2011 Stock Incentive Plan (the Plan) authorizing the grant of options or restricted stock covering 800,000 shares of common stock. This Plan replaced the expired 2001 Stock Option Plan. Under the Plan, options or restricted stock can be granted (the Grant Date) to directors, officers, and employees that provide services to the Company and its affiliates, as selected by the compensation committee of the Board. The option price at which a granted stock option may be exercised will not be less than 100% of the fair market value per share of common stock on the Grant Date. The maximum term of any option granted under the Plan cannot exceed 10 years. Generally, options vest over a three year period and become exercisable in equal installments over the vesting period. At times, options with a one year vesting period may also be issued.

A summary of the status of the Company’s Stock Incentive Plan at December 31, 2018, 2017, and 2016, and changes during the years then ended is presented in the table and narrative following:

	YEAR ENDED DECEMBER 31					
	2018		2017		2016	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	360,721	\$2.85	417,566	\$2.76	470,449	\$2.74
Granted	5,000	4.22	17,500	3.96	54,000	3.03
Exercised	(24,408)	2.49	(64,112)	2.49	(32,661)	2.27
Forfeited	(5,000)	1.92	(10,233)	3.10	(74,222)	3.04
Outstanding at end of year . .	<u>336,313</u>	<u>2.91</u>	<u>360,721</u>	2.85	<u>417,566</u>	2.76
Exercisable at end of year . .	<u>307,814</u>	<u>2.86</u>	<u>308,301</u>	2.79	<u>328,062</u>	2.69
Weighted average fair value of options granted in current year		\$0.56		\$1.12		\$0.93

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. STOCK COMPENSATION PLANS – (continued)

A total of 307,814 of the 336,313 options outstanding at December 31, 2018, are exercisable and have exercise prices between \$1.70 and \$4.00, with a weighted average exercise price of \$2.86 and a weighted average remaining contractual life of 4.49 years. The remaining 28,499 options that are not yet exercisable have exercise prices between \$2.96 and \$4.22, with a weighted average exercise price of \$3.49 and a weighted average remaining contractual life of 8.11 years. The fair value of each option grant is estimated on the date of grant using the Binomial or Black-Scholes option pricing model with the following assumptions used for grants in 2018, 2017, and 2016.

PRICING MODEL ASSUMPTION RANGES	YEAR ENDED DECEMBER 31		
	2018	2017	2016
Risk-free interest rate	3.13%	2.23 – 2.38%	1.56 – 1.73%
Expected lives in years	10	10	10
Expected volatility	15.59%	28.09 – 28.84%	29%
Expected dividend rate	1.90%	1.50%	1.35 – 1.81%

The intrinsic value of stock options exercised was \$42,000, \$91,000, and \$26,000 in 2018, 2017, and 2016, respectively.

22. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in each component of accumulated other comprehensive loss, net of tax, for the periods ending December 31, 2018, 2017, and 2016 (in thousands):

	YEAR ENDING DECEMBER 31, 2018			YEAR ENDING DECEMBER 31, 2017			YEAR ENDING DECEMBER 31, 2016		
	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⁾	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)	\$ 808	\$ (8,363)	\$ (7,555)
Reclassification of certain income tax effects from accumulated other comprehensive loss	—	—	—	(53)	(2,078)	(2,131)	—	—	—
Other comprehensive income (loss) before reclassifications	(1,429)	(1,416)	(2,845)	(27)	1,071	1,044	(862)	(3,563)	(4,425)
Amounts reclassified from accumulated other comprehensive loss	347	1,223	1,570	(76)	(210)	(286)	(117)	520	403
Net current period other comprehensive loss	(1,082)	(193)	(1,275)	(156)	(1,217)	(1,373)	(979)	(3,043)	(4,022)
Ending balance	<u>\$ (1,409)</u>	<u>\$ (12,816)</u>	<u>\$ (14,225)</u>	<u>\$ (327)</u>	<u>\$ (12,623)</u>	<u>\$ (12,950)</u>	<u>\$ (171)</u>	<u>\$ (11,406)</u>	<u>\$ (11,577)</u>

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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. ACCUMULATED OTHER COMPREHENSIVE LOSS – (continued)

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the periods ending December 31, 2018, 2017, and 2016 (in thousands):

Details about accumulated other comprehensive loss components	Amount reclassified from accumulated other comprehensive loss ⁽¹⁾			Affected line item in the statement of operations
	YEAR ENDING DECEMBER 31, 2018	YEAR ENDING DECEMBER 31, 2017	YEAR ENDING DECEMBER 31, 2016	
Realized (gains) losses on sale of securities	\$ 439 (92) <u>\$ 347</u>	\$(115) 39 <u>\$ (76)</u>	\$(177) 60 <u>\$(117)</u>	Net realized (gains) losses on investment securities Provision for income taxes Net of tax
Amortization of estimated defined benefit pension plan loss ⁽²⁾	\$1,548 (325) <u>\$1,223</u>	\$(318) 108 <u>\$(210)</u>	\$ 788 (268) <u>\$ 520</u>	Other expense Provision for income taxes Net of tax
Total reclassifications for the period	<u>\$1,570</u>	<u>\$(286)</u>	<u>\$ 403</u>	Net income

(1) Amounts in parentheses indicate credits.

(2) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost (see Note 17 for additional details).

23. INTANGIBLE ASSETS

The Company's Consolidated Balance Sheets show both tangible assets (such as loans, buildings, and investments) and intangible assets (such as goodwill). Goodwill has an indefinite life and is not amortized. Instead such intangible is evaluated for impairment at the reporting unit level at least annually. Any resulting impairment would be reflected as a non-interest expense. Of the Company's goodwill of \$11.9 million, \$9.5 million is allocated to the retail banking segment and \$2.4 million relates to the WCCA acquisition which is included in the trust segment. The balance of the Company's goodwill at December 31, 2018 and 2017 was \$11.9 million.

24. DERIVATIVE HEDGING INSTRUMENTS

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

To accommodate the needs of our customers and support the Company's asset/liability positioning, we may enter into interest rate swap agreements with customers and a large financial institution that specializes in these types of transactions. These arrangements involve the exchange of interest payments based on the notional amounts. The Company entered into floating rate loans and fixed rate swaps with our customers. Simultaneously, the Company entered into offsetting fixed rate swaps with Pittsburgh National Bank (PNC). In connection with each swap transaction, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on the same notional amount at a fixed interest rate. At the same time, the Company agrees to pay PNC the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. These transactions

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. DERIVATIVE HEDGING INSTRUMENTS – (continued)

allow the Company’s customers to effectively convert a variable rate loan to a fixed rate. Because the Company acts as an intermediary for its customers, changes in the fair value of the underlying derivative contracts offset each other and do not significantly impact the Company’s results of operations. For the years ended December 31, 2018 and 2017, the Company received \$25,000 and \$138,000, respectively, in fees on the interest rate swap transactions.

The following table summarizes the interest rate swap transactions that impacted the Company’s 2018 and 2017 performance.

DECEMBER 31, 2018					
	HEDGE TYPE	AGGREGATE NOTIONAL AMOUNT	WEIGHTED AVERAGE RATE RECEIVED/(PAID)	REPRICING FREQUENCY	INCREASE (DECREASE) IN INTEREST EXPENSE
Swap assets	Fair Value	\$ 19,824,565	4.31%	Monthly	\$(40,893)
Swap liabilities	Fair Value	(19,824,565)	(4.31)	Monthly	40,893
Net exposure		—	—		—
DECEMBER 31, 2017					
	HEDGE TYPE	AGGREGATE NOTIONAL AMOUNT	WEIGHTED AVERAGE RATE RECEIVED/(PAID)	REPRICING FREQUENCY	INCREASE (DECREASE) IN INTEREST EXPENSE
Swap assets	Fair Value	\$ 16,948,686	3.47%	Monthly	\$(110,778)
Swap liabilities	Fair Value	(16,948,686)	(3.47)	Monthly	110,778
Net exposure		—	—		—

The Company monitors and controls all derivative products with a comprehensive Board of Director approved hedging policy. This policy permits a total maximum notional amount outstanding of \$500 million for interest rate swaps, interest rate caps/floors, and swaptions. All hedge transactions must be approved in advance by the Investment Asset/Liability Committee (ALCO) of the Board of Directors, unless otherwise approved, as per the terms, with the Board of Directors approved hedging policy. The Company had no caps or floors outstanding at December 31, 2018 and 2017.

25. SEGMENT RESULTS

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

Retail banking includes the deposit-gathering branch franchise and lending to both individuals and small businesses. Lending activities include residential mortgage loans, direct consumer loans, and small business commercial loans. Commercial banking to businesses includes commercial loans, business services, and CRE loans. The wealth management segment includes the Trust Company, West Chester Capital Advisors (WCCA), our registered investment advisory firm, and financial services. Wealth management activities include personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. Financial services include the sale of mutual funds, annuities, and

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. SEGMENT RESULTS – (continued)

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

The contribution of the major business segments to the Consolidated Statements of Operations were as follows:

	YEAR ENDED DECEMBER 31, 2018				
	RETAIL BANKING	COMMERCIAL BANKING	WEALTH MANAGEMENT (IN THOUSANDS)	INVESTMENT/ PARENT	TOTAL
Net interest income	\$ 21,393	\$ 17,802	\$ 71	\$ (3,772)	\$ 35,494
Credit provision for loan loss	(91)	(509)	—	—	(600)
Non-interest income	4,398	434	9,651	(259)	14,224
Non-interest expense	21,049	9,760	7,382	2,745	40,936
Income (loss) before income taxes . .	4,833	8,985	2,340	(6,776)	9,382
Income tax expense (benefit)	967	1,797	491	(1,641)	1,614
Net income (loss)	\$ 3,866	\$ 7,188	\$1,849	\$ (5,135)	\$ 7,768
Total assets	\$338,355	\$628,555	\$9,345	\$184,425	\$1,160,680

	YEAR ENDED DECEMBER 31, 2017				
	RETAIL BANKING	COMMERCIAL BANKING	WEALTH MANAGEMENT (IN THOUSANDS)	INVESTMENT/ PARENT	TOTAL
Net interest income	\$ 20,541	\$ 18,642	\$ 61	\$ (3,683)	\$ 35,561
Provision for loan loss	122	678	—	—	800
Non-interest income	4,956	414	9,170	105	14,645
Non-interest expense	21,247	9,892	7,094	2,533	40,766
Income (loss) before income taxes . .	4,128	8,486	2,137	(6,111)	8,640
Income tax expense	1,381	2,642	772	552	5,347
Net income (loss)	\$ 2,747	\$ 5,844	\$1,365	\$ (6,663)	\$ 3,293
Total assets	\$350,634	\$643,055	\$8,703	\$165,263	\$1,167,655

	YEAR ENDED DECEMBER 31, 2016				
	RETAIL BANKING	COMMERCIAL BANKING	WEALTH MANAGEMENT (IN THOUSANDS)	INVESTMENT/ PARENT	TOTAL
Net interest income	\$ 20,860	\$ 18,518	\$ 56	\$ (5,300)	\$ 34,134
Provision for loan loss	175	3,775	—	—	3,950
Non-interest income	5,281	439	8,749	169	14,638
Non-interest expense	21,704	10,453	7,097	2,361	41,615
Income (loss) before income taxes . .	4,262	4,729	1,708	(7,492)	3,207
Income tax expense (benefit)	1,252	1,387	581	(2,323)	897
Net income (loss)	\$ 3,010	\$ 3,342	\$1,127	\$ (5,169)	\$ 2,310
Total assets	\$354,584	\$635,843	\$8,133	\$155,220	\$1,153,780

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. 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 Management's Discussion and Analysis of Financial Condition and Results of Operations (M.D. & A.).

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets. Additionally, under Basel III rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. As of December 31, 2018 and 2017, the Company was categorized as Well Capitalized under the regulatory framework for prompt corrective action promulgated by the Federal Reserve. The Company believes that no conditions or events have occurred that would change this conclusion. To be categorized as well capitalized, the Company must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table.

	AT DECEMBER 31, 2018					
	COMPANY		BANK		MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES RATIO	TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION REGULATIONS* RATIO
	AMOUNT	RATIO	AMOUNT	RATIO		
	(IN THOUSANDS, EXCEPT RATIOS)					
Total Capital (To Risk Weighted Assets)	\$129,178	13.53%	\$115,451	12.14%	8.00%	10.00%
Tier 1 Common Equity (To Risk Weighted Assets)	100,258	10.50	105,891	11.14	4.50	6.50
Tier 1 Capital (To Risk Weighted Assets)	112,130	11.74	105,891	11.14	6.00	8.00
Tier 1 Capital (To Average Assets)	112,130	9.71	105,891	9.28	4.00	5.00

	AT DECEMBER 31, 2017					
	COMPANY		BANK		MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES RATIO	TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION REGULATIONS* RATIO
	AMOUNT	RATIO	AMOUNT	RATIO		
	(IN THOUSANDS, EXCEPT RATIOS)					
Total Capital (To Risk Weighted Assets)	\$126,276	13.21%	\$110,681	11.64%	8.00%	10.00%
Tier 1 Common Equity (To Risk Weighted Assets)	95,882	10.03	99,552	10.47	4.50	6.50
Tier 1 Capital (To Risk Weighted Assets)	107,682	11.26	99,552	10.47	6.00	8.00
Tier 1 Capital (To Average Assets)	107,682	9.32	99,552	8.75	4.00	5.00

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. REGULATORY CAPITAL – (continued)

* Applies to the Bank only.

Additionally, while not a regulatory capital ratio, the Company’s tangible common equity ratio was 7.49% and 7.20% for 2018 and 2017, respectively. See the discussion of the tangible common equity ratio under the Balance Sheet section of the M.D. & A.

27. PARENT COMPANY FINANCIAL INFORMATION

The parent company functions primarily as a coordinating and servicing unit for all subsidiary entities. Provided services include general management, accounting and taxes, loan review, internal auditing, investment advisory, marketing, insurance, risk management, general corporate services, and financial and strategic planning. The following financial information relates only to the parent company operations:

BALANCE SHEETS

	AT DECEMBER 31,	
	2018	2017
	<small>(IN THOUSANDS)</small>	
ASSETS		
Cash	\$ 100	\$ 100
Short-term investments in money market funds	3,711	4,521
Investment securities available for sale	4,747	5,307
Equity investment in banking subsidiary	103,647	99,408
Equity investment in non-banking subsidiaries	6,745	6,444
Other assets	208	499
TOTAL ASSETS	<u>\$119,158</u>	<u>\$116,279</u>
LIABILITIES		
Guaranteed junior subordinated deferrable interest debentures	\$ 12,939	\$ 12,923
Subordinated debt	7,488	7,465
Other liabilities	754	789
TOTAL LIABILITIES	<u>21,181</u>	<u>21,177</u>
STOCKHOLDERS’ EQUITY		
Total stockholders’ equity	<u>97,977</u>	<u>95,102</u>
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	<u>\$119,158</u>	<u>\$116,279</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27. PARENT COMPANY FINANCIAL INFORMATION – (continued)

STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS)		
INCOME			
Inter-entity management and other fees	\$2,430	\$ 2,315	\$ 2,305
Dividends from banking subsidiary	3,500	2,850	3,000
Dividends from non-banking subsidiaries	1,190	840	650
Interest, dividend and other income	119	163	214
TOTAL INCOME	<u>7,239</u>	<u>6,168</u>	<u>6,169</u>
EXPENSE			
Interest expense	1,642	1,642	1,640
Salaries and employee benefits	2,610	2,416	2,314
Other expense	1,733	1,618	1,549
TOTAL EXPENSE	<u>5,985</u>	<u>5,676</u>	<u>5,503</u>
INCOME BEFORE INCOME TAXES AND EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES	1,254	492	666
Benefit for income taxes	(722)	(1,114)	(1,015)
Equity in undistributed earnings of subsidiaries	5,792	1,687	629
NET INCOME	<u>\$7,768</u>	<u>\$ 3,293</u>	<u>\$ 2,310</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$6,493</u>	<u>\$ 4,051</u>	<u>\$(1,712)</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27. PARENT COMPANY FINANCIAL INFORMATION – (continued)

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income	\$ 7,768	\$ 3,293	\$ 2,310
Adjustment to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(5,792)	(1,687)	(629)
Stock compensation expense, net of tax	14	13	20
Other – net	433	1,325	1,463
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,423</u>	<u>2,944</u>	<u>3,164</u>
INVESTING ACTIVITIES			
Purchase of investment securities – available for sale	(1,002)	(1,002)	(996)
Proceeds from maturity and sales of investment securities – available for sale	1,462	1,699	3,396
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>460</u>	<u>697</u>	<u>2,400</u>
FINANCING ACTIVITIES			
Preferred stock redemption	—	—	(21,000)
Preferred stock dividends paid	—	—	(15)
Purchases of treasury stock	(2,346)	(3,404)	—
Common stock dividends paid	(1,347)	(1,113)	(945)
NET CASH USED IN FINANCING ACTIVITIES	<u>(3,693)</u>	<u>(4,517)</u>	<u>(21,960)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(810)	(876)	(16,396)
CASH AND CASH EQUIVALENTS AT JANUARY 1	4,621	5,497	21,893
CASH AND CASH EQUIVALENTS AT DECEMBER 31	<u>\$ 3,811</u>	<u>\$ 4,621</u>	<u>\$ 5,497</u>

The ability of the subsidiary Bank to upstream cash to the parent company is restricted by regulations. Federal law prevents the parent company from borrowing from its subsidiary Bank unless the loans are secured by specified assets. Further, such secured loans are limited in amount to ten percent of the subsidiary Bank’s capital and surplus. In addition, the Bank is subject to legal limitations on the amount of dividends that can be paid to its shareholder. The dividend limitation generally restricts dividend payments to a bank’s retained net income for the current and preceding two calendar years. Cash may also be upstreamed to the parent company by the subsidiaries as an inter-entity management fee. The subsidiary Bank had a combined \$107,849,000 of restricted surplus and retained earnings at December 31, 2018.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA (unaudited)

The following table sets forth certain unaudited quarterly consolidated financial data regarding the Company:

	2018 QUARTER ENDED			
	DEC. 31	SEPT. 30	JUNE 30	MARCH 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income	\$12,125	\$12,149	\$11,603	\$11,217
Interest expense	3,346	3,040	2,745	2,469
Net interest income	8,779	9,109	8,858	8,748
Provision (credit) for loan losses	(700)	—	50	50
Net interest income after provision (credit) for loan losses	9,479	9,109	8,808	8,698
Non-interest income	3,322	3,586	3,681	3,635
Non-interest expense	10,392	10,114	10,310	10,120
Income before income taxes	2,409	2,581	2,179	2,213
Provision for income taxes	481	252	435	446
Net income	\$ 1,928	\$ 2,329	\$ 1,744	\$ 1,767
Basic earnings per common share	\$ 0.11	\$ 0.13	\$ 0.10	\$ 0.10
Diluted earnings per common share	0.11	0.13	0.10	0.10
Cash dividends declared per common share	0.020	0.020	0.020	0.015
	2017 QUARTER ENDED			
	DEC. 31	SEPT. 30	JUNE 30	MARCH 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income	\$11,370	\$11,187	\$11,051	\$10,748
Interest expense	2,366	2,250	2,152	2,027
Net interest income	9,004	8,937	8,899	8,721
Provision for loan losses	50	200	325	225
Net interest income after provision for loan losses	8,954	8,737	8,574	8,496
Non-interest income	3,699	3,629	3,755	3,562
Non-interest expense	10,250	10,114	10,317	10,085
Income before income taxes	2,403	2,252	2,012	1,973
Provision for income taxes	3,398	701	623	625
Net income (loss)	\$ (995)	\$ 1,551	\$ 1,389	\$ 1,348
Basic earnings (loss) per common share	\$ (0.05)	\$ 0.08	\$ 0.07	\$ 0.07
Diluted earnings (loss) per common share	(0.05)	0.08	0.07	0.07
Cash dividends declared per common share	0.015	0.015	0.015	0.015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of AmeriServ Financial, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of AmeriServ Financial Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017; the related consolidated statements of operations, comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018; and the related notes to the consolidated financial statements (collectively, the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 5, 2019, which expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 2007.

/s/ S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 5, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Stockholders of AmeriServ Financial, Inc.

Opinion on Internal Control over Financial Reporting

We have audited AmeriServ Financial Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, of the Company, and our report dated March 5, 2019, expressed an unqualified opinion.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 5, 2019

**REPORT ON MANAGEMENT’S ASSESSMENT OF
INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

Management assessed the Company’s system of internal control over financial reporting as of December 31, 2018, in relation to criteria for effective internal control over financial reporting as described in “2013 Internal Control — Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of December 31, 2018, its system of internal control over financial reporting is effective and meets the criteria of the “2013 Internal Control — Integrated Framework”. S.R. Snodgrass, P.C., independent registered public accounting firm, has issued an audit report on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2018.

Management is responsible for compliance with the federal and state laws and regulations concerning dividend restrictions and federal laws and regulations concerning loans to insiders designated by the Federal Reserve as safety and soundness laws and regulations.

Management has assessed compliance by the Company with the designated laws and regulations relating to safety and soundness. Based on the assessment, management believes that the Company complied, in all significant respects, with the designated laws and regulations related to safety and soundness for the year ended December 31, 2018.

/s/ JEFFREY A. STOPKO

Jeffrey A. Stopko
President &
Chief Executive Officer

/s/ MICHAEL D. LYNCH

Michael D. Lynch
Senior Vice President &
Chief Financial Officer

Johnstown, PA
March 5, 2019

STATEMENT OF MANAGEMENT RESPONSIBILITY

March 5, 2019

To the Stockholders and
Board of Directors of
AmeriServ Financial, Inc.

Management of AmeriServ Financial, Inc. and its subsidiaries have prepared the consolidated financial statements and other information in the Annual Report and Form 10-K in accordance with United States generally accepted accounting principles and are responsible for its accuracy.

In meeting its responsibility, management relies on internal accounting and related control systems, which include selection and training of qualified personnel, establishment and communication of accounting and administrative policies and procedures, appropriate segregation of responsibilities, and programs of internal audit. These systems are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets and that assets are safeguarded against unauthorized use or disposition. Such assurance cannot be absolute because of inherent limitations in any internal control system.

Management also recognizes its responsibility to foster a climate in which Company affairs are conducted with the highest ethical standards. The Company's Code of Conduct, furnished to each employee and director, addresses the importance of open internal communications, potential conflicts of interest, compliance with applicable laws, including those related to financial disclosure, the confidentiality of proprietary information, and other items. There is an ongoing program to assess compliance with these policies.

The Audit Committee of the Company's Board of Directors consists solely of independent directors. The Audit Committee meets periodically with management and the independent auditors to discuss audit, financial reporting, and related matters. S.R. Snodgrass P.C. and the Company's internal auditors have direct access to the Audit Committee.

/s/ JEFFREY A. STOPKO

Jeffrey A. Stopko
President &
Chief Executive Officer

/s/ MICHAEL D. LYNCH

Michael D. Lynch
Senior Vice President &
Chief Financial Officer

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of December 31, 2018, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed by the Company in its reports filed and submitted under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports filed under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management Report on Internal Control over Financial Reporting. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Management's assessment of internal control over financial reporting for the fiscal year ended December 31, 2018 is included in Item 8.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this section relating to Directors of the Registrant is presented in the “Election of ASRV Directors” section of the Proxy Statement for the Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this section is presented in the “Compensation Committee Interlocks and Insider Participation,” “Compensation Discussion and Analysis,” the “Compensation Committee Report,” and “Compensation Paid to Executive Officers” sections of the Proxy Statement for the Annual Meeting of Shareholders.

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

Equity Compensation Plan Information

The following table summarizes the number of shares remaining for issuance under the Company’s outstanding stock incentive plans as of December 31, 2018.

Equity Compensation Plan Information			
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	336,313	\$2.91	448,170
Equity compensation plans not approved by security holders	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>336,313</u>	<u>\$2.91</u>	<u>448,170</u>

Information required by this section is presented in the “Principal Owners” and “Security Ownership of Management” sections of the Proxy Statement for the Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this section is presented in the “Director Independence and Transactions with Related Parties” section of the Proxy Statement for the Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this section is presented in the “Independent Registered Accounting Firm” section of the Proxy Statement for the Annual Meeting of Shareholders.

PART IV

ITEM 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

CONSOLIDATED FINANCIAL STATEMENTS FILED:

The consolidated financial statements listed below are from this 2018 Form 10-K and Part II — Item 8. Page references are to this Form 10-K.

CONSOLIDATED FINANCIAL STATEMENTS:

AmeriServ Financial, Inc. and Subsidiaries	
Consolidated Balance Sheets	36
Consolidated Statements of Operations	37
Consolidated Statements of Comprehensive Income (Loss)	39
Consolidated Statements of Changes in Stockholders' Equity	40
Consolidated Statements of Cash Flows	41
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Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	90
Report of Management's Assessment of Internal Control Over Financial Reporting	91
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CONSOLIDATED FINANCIAL STATEMENT SCHEDULES:

These schedules are not required or are not applicable under SEC accounting regulations and therefore have been omitted.

EXHIBITS:

The exhibits listed below are filed herewith or to other filings.

EXHIBIT NUMBER	DESCRIPTION	PRIOR FILING OR EXHIBIT PAGE NUMBER HEREIN
3.1	Amended and Restated Articles of Incorporation as amended through August 11, 2011.	Exhibit 3.1 to the Registration Statement on Form S-8 (File No. 333-176869) filed on September 16, 2011
3.2	Bylaws, as amended and restated effective June 21, 2018.	Exhibit 3.2 to the Current Report on Form 8-K filed on June 25, 2018
10.1	Employment Agreement, dated April 27, 2015, between AmeriServ Financial, Inc. and Jeffrey A. Stopko.	Exhibit 10.1 to the Current Report on Form 8-K filed on April 28, 2015
10.2	AmeriServ Financial, Inc. 2011 Stock Incentive Plan.	Appendix A to the Definitive Proxy Statement, filed under Schedule 14A, filed on March 21, 2011
10.3	AmeriServ Financial, Inc. Deferred Compensation Plan.	Exhibit 10.1 to the Current Report on Form 8-K filed on October 21, 2014
10.4	Employment Agreement, dated February 19, 2016, between AmeriServ Financial, Inc. and Michael D. Lynch.	Exhibit 10.1 to the Current Report on Form 8-K filed on February 24, 2016
21.1	Subsidiaries of the Registrant.	Attached
23.1	Consent of Independent Registered Public Accounting Firm.	Attached
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.	Attached
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.	Attached
32.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	Attached
32.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	Attached
101	The following information from AMERISERV FINANCIAL, INC.'s Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to the Consolidated Financial Statements.	Attached

SIGNATURES

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

AmeriServ Financial, Inc.
(Registrant)

By: /s/ Jeffrey A. Stopko

Jeffrey A. Stopko
President & CEO

Date: March 5, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 21, 2019:

<u>/s/ Allan R. Dennison</u> Allan R. Dennison	Chairman Director		
<u>/s/ Jeffrey A. Stopko</u> Jeffrey A. Stopko	President & CEO Director	<u>/s/ Michael D. Lynch</u> Michael D. Lynch	SVP & CFO
<u>/s/ J. Michael Adams, Jr.</u> J. Michael Adams, Jr.	Director	<u>/s/ Margaret A. O'Malley</u> Margaret A. O'Malley	Director
<u>/s/ Daniel R. DeVos</u> Daniel R. DeVos	Director	<u>/s/ Mark E. Pasquerilla</u> Mark E. Pasquerilla	Director
<u>/s/ Bruce E. Duke, III</u> Bruce E. Duke, III	Director	<u>/s/ Sara A. Sargent</u> Sara A. Sargent	Director
<u>/s/ Craig G. Ford</u> Craig G. Ford	Director	<u>/s/ Robert L. Wise</u> Robert L. Wise	Director
<u>/s/ Kim W. Kunkle</u> Kim W. Kunkle	Director		

AMERISERV FINANCIAL, INC.

**AMERISERV FINANCIAL
BANK OFFICE LOCATIONS**

- * Main Office Downtown
216 Franklin Street
Johnstown, PA 15901-1911
1-800-837-BANK (2265)
- * Westmont Office
110 Plaza Drive
Johnstown, PA 15905-1211
- * University Heights Office
1404 Eisenhower Boulevard
Johnstown, PA 15904-3218
- * Eighth Ward Office
1059 Franklin Street
Johnstown, PA 15905-4303
- * Carrolltown Office
101 South Main Street
Carrolltown, PA 15722-0507
- * Northern Cambria Office
4206 Crawford Avenue
Suite 1 Northern
Cambria, PA 15714-1342
- * Lovell Park Office
179 Lovell Avenue
Ebensburg, PA 15931-1864
- * Nanty Glo Office
1383 Shoemaker Street
Nanty Glo, PA 15943-1254
- * Seward Office
1 Roadway Plaza
6858 Route 711 Suite One
Seward, PA 15954-3130

- * Windber Office
1501 Somerset Avenue
Windber, PA 15963-1745
- * Central City Office
104 Sunshine Avenue
Central City, PA 15926-1129
- * Somerset Office
108 W. Main Street
Somerset, PA 15501-2035
- * Derry Office
112 South Chestnut Street
Derry, PA 15627-1938
- * East Hills Drive Up
1213 Scalp Avenue
Johnstown, PA 15904
- Pittsburgh Office
United Steelworkers Bldg
60 Boulevard of the Allies
Suite 100
Pittsburgh, PA 15222-1232
- * North Atherton Office
1857 N. Atherton Street
State College, PA 16803-1521
- * Hagerstown Office
12806 Shank Farm Way
Hagerstown, MD 21742-2780
- * = 24-Hour ATM Banking
Available

**REMOTE ATM
BANKING LOCATIONS**

- ** Main Office,
216 Franklin Street,
Johnstown

**AMERISERV LOAN
PRODUCTION LOCATIONS**

- Main Office Downtown
216 Franklin Street
Johnstown, PA 15901-1911
- Altoona Office
3415 Pleasant Valley Boulevard
Pleasant Valley Shopping Center
Altoona, PA 16602-4321
- Hagerstown Office
12806 Shank Farm Way
Hagerstown, MD 21742-2780
- Wilkins Township LPO
201 Penn Center Boulevard
Suite 200
Pittsburgh, PA 15235-5507
- State College Loan Store
1857 N. Atherton Street
State College, PA 16803-1521

SHAREHOLDER INFORMATION

SECURITIES MARKETS

AmeriServ Financial, Inc. Common Stock is publicly traded and quoted on the NASDAQ National Market System. The common stock is traded under the symbol of “ASRV.” The listed market makers for the stock are:

Sandler O’Neill & Partners, L.P.
1251 Avenue of the Americas
6th Floor
New York, NY 10020
Telephone: (800) 635-6860

Keefe Bruyette & Woods, Inc.
787 Seventh Avenue
Equitable Bldg — 4th Floor
New York, NY 10019
Telephone: (800) 966-1559

Stifel Nicolaus
7111 Fairway Drive, STE 301
Palm Beach Gardens, FL 33418
Telephone: (561) 615-5300

KCG
300 Vesey Street
New York, NY 10282
Telephone: (888) 931-4357

Raymond James & Associates
222 S. Riverside Plaza, 7th Floor
Chicago, IL 60606
Telephone: (312) 655-2961

CORPORATE OFFICES

The corporate offices of AmeriServ Financial, Inc. are located at 216 Franklin Street, Johnstown, PA 15901. Mailing address:

P.O. Box 430
Johnstown, PA 15907-0430
(814) 533-5300

AGENTS

The transfer agent and registrar for AmeriServ Financial, Inc.’s common stock is:

Computershare Investor Services
P O Box 43078
Providence, RI 02940-3078
Shareholder Inquiries: 1-800-730-4001
Internet Address: <http://www.Computershare.com>

INFORMATION

Analysts, investors, shareholders, and others seeking financial data about AmeriServ Financial, Inc. or any of its subsidiaries’ annual and quarterly reports, proxy statements, 10-K, 10-Q, 8-K, and call reports — are asked to contact Jeffrey A. Stopko, President & Chief Executive Officer at (814) 533-5310 or by e-mail at JStopko@AmeriServ.com. The Company also maintains a website (www.AmeriServ.com) that makes available, free of charge, such reports and proxy statements and other current financial information, such as press releases and SEC documents, as well as the corporate governance documents under the Investor Relations tab on the Company’s website. Information contained on the Company’s website is not incorporated by reference into this Annual Report on Form 10-K.

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

NAME	PERCENT OF OWNERSHIP	JURISDICTION OF ORGANIZATION
AmeriServ Financial Bank 216 Franklin Street Johnstown, PA 15901-1911	100%	Commonwealth of Pennsylvania
AmeriServ Life Insurance Company 101 N. First Avenue #2460 Phoenix, AZ 85003	100%	State of Arizona
AmeriServ Trust and Financial Services Company 216 Franklin Street Johnstown, PA 15901-1911	100%	Commonwealth of Pennsylvania

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements File No. 333-176869 and File No. 333-67600, on Form S-8 of AmeriServ Financial, Inc. of our report dated March 5, 2019, relating to our audit of the consolidated financial statements and internal control over financial reporting, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K of AmeriServ Financial, Inc. for the year ended December 31, 2018.

/s/ S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 5, 2019

EXHIBIT 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF
1934 AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey A. Stopko, certify that:

1. I have reviewed this annual report on Form 10-K of AmeriServ Financial, Inc. (ASF);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of ASF as of, and for, the periods presented in this report;
4. ASF's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for ASF and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to ASF, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of ASF's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in ASF's internal control over financial reporting that occurred during ASF's most recent fiscal quarter (ASF's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ASF's internal control over financial reporting; and
5. ASF's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to ASF's auditors and the audit committee of ASF's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect ASF's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in ASF's internal control over financial reporting.

Date: March 5, 2019

/s/ Jeffrey A. Stopko

Jeffrey A. Stopko
President & CEO

EXHIBIT 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF
1934 AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael D. Lynch, certify that:

1. I have reviewed this annual report on Form 10-K of AmeriServ Financial, Inc. (ASF);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of ASF as of, and for, the periods presented in this report;
4. ASF's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for ASF and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to ASF, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of ASF's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in ASF's internal control over financial reporting that occurred during ASF's most recent fiscal quarter (ASF's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ASF's internal control over financial reporting; and
5. ASF's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to ASF's auditors and the audit committee of ASF's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect ASF's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in ASF's internal control over financial reporting.

Date: March 5, 2019

/s/ Michael D. Lynch

Michael D. Lynch
Senior Vice President & CFO

EXHIBIT 32.1

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

In connection with the Annual Report of AmeriServ Financial, Inc. (the "Company") on Form 10-K for the period ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey A. Stopko, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1). The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- 2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey A. Stopko

Jeffrey A. Stopko
President and
Chief Executive Officer
March 5, 2019

EXHIBIT 32.2

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

In connection with the Annual Report of AmeriServ Financial, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael D. Lynch, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1). The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- 2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael D. Lynch

Michael D. Lynch
Senior Vice President and
Chief Financial Officer
March 5, 2019

AMERISERV FINANCIAL, INC.

AMERISERV FINANCIAL, INC.

Board of Directors

J. Michael Adams, Jr.
Attorney-at-Law
Mike Adams & Associates, LLC

Allan R. Dennison
Non-executive Chairman,
Retired President & Chief
Executive Officer AmeriServ
Financial Bank, and
Non-executive Chairman
of the Board of all Subsidiaries

Daniel R. DeVos
Retired President & CEO,
Concurrent Technologies
Corporation

Bruce E. Duke, III M.D.
Retired Surgeon, Conemaugh
Health Initiatives

Craig G. Ford
Non-executive Vice Chairman,
Former President & CEO,
AmeriServ Financial, Inc.,
AmeriServ Financial Bank, and
Non-executive Vice Chairman
of the Board of all Subsidiaries

Kim W. Kunkle
President & CEO,
Laurel Holdings, Inc.

Margaret A. O'Malley
Attorney-at-Law
Yost & O'Malley

Mark E. Pasquerilla
President, Pasquerilla
Enterprises L.P.

Sara A. Sargent
Owner/President,
The Sargent's Group

Jeffrey A. Stopko, CPA
President & Chief Executive
Officer AmeriServ Financial,
Inc. & AmeriServ Financial
Bank

Robert L. Wise
Retired President,
Pennsylvania Electric Company,
GPU Genco, Inc. and GPU
International, Inc. and GPU
Energy, Inc.

General Officers

Jeffrey A. Stopko, CPA
President & Chief Executive
Officer

Susan Tomera Angeletti
Senior Vice President,
Director of Marketing &
Alternative Delivery

Michael D. Lynch
Senior Vice President,
Chief Financial Officer,
Chief Investment Officer &
Chief Risk Officer

James P. Ziance
Senior Vice President &
Chief Internal Auditor

Frank E. Adams
Senior Vice President &
Chief Loan Review Officer

Anthony M. Gojmerac
Vice President, Purchasing &
Facilities Officer

Tammie Slavick
Vice President,
Financial-Profitability
Analysis

Sharon M. Callihan
Corporate Secretary

AMERISERV FINANCIAL, INC.

AMERISERV FINANCIAL BANK

Board of Directors

J. Michael Adams, Jr.
Attorney-at-Law
Mike Adams & Associates, LLC

Allan R. Dennison
Non-executive Chairman,
Retired President & Chief
Executive Officer AmeriServ
Financial Bank, and
Non-executive Chairman of
the Board of all Subsidiaries

Daniel R. DeVos
Retired President & CEO,
Concurrent Technologies
Corporation

Bruce E. Duke, III, M.D.
Retired Surgeon, Conemaugh
Health Initiatives

Craig G. Ford
Non-executive Vice Chairman,
Former President & CEO,
AmeriServ Financial, Inc.,
AmeriServ Financial Bank, and
Non-executive Vice Chairman of
the Board of all Subsidiaries

Kim W. Kunkle
President & CEO,
Laurel Holdings, Inc.

Margaret A. O'Malley
Attorney-at-Law
Yost & O'Malley

Mark E. Pasquerilla
President, Pasquerilla
Enterprises L.P.

Sara A. Sargent
Owner/President,
The Sargent's Group

Jeffrey A. Stopko, CPA
President & Chief Executive
Officer AmeriServ Financial,
Inc. & AmeriServ Financial
Bank

Robert L. Wise
Retired President,
Pennsylvania Electric Company,
GPU Genco, Inc. and GPU
International, Inc. and GPU
Energy, Inc.

General Officers

Jeffrey A. Stopko, CPA
President & Chief Executive
Officer

Michael R. Baylor
Executive Vice President &
Chief Commercial Banking
Officer

Jack W. Babich
Senior Vice President, Chief
Human Resources Officer &
Corporate Services Officer

Russell B. Flynn
Senior Vice President, Retail
Lending

Bettina D. Fochler
Senior Vice President, Chief
Credit Officer

Wayne A. Kessler
Senior Vice President, Area
Executive Johnstown

Michael D. Lynch
Senior Vice President, Chief
Financial Officer, Chief
Investment Officer & Chief Risk
Officer

Kerri L. Mueller
Senior Vice President Retail
Banking

Matthew C. Rigo
Senior Vice President, Area
Executive, Wilkins Township

Tara Shaffer
Senior Vice President, Area
Executive State College

Robert E. Werner, III
Senior Vice President & Chief
Information Officer

Todd C. Allison
Vice President & Director of
Information Technology

Michael S. Andrascik
Vice President, Bank Security
Officer

Thomas R. Boyd, Jr.
Vice President, Commercial
Relationship Manager II

Jennifer L. Devan
Vice President, Chief
Compliance Officer

Bernard A. Eckenrode
Vice President, Commercial
Relationship Manager II

Mitchell D. Edwards
Vice President, Commercial
Relationship Manager III

Jason D. Eminhizer
Vice President, Commercial
Relationship Manager II

Christine E. Fisher
Vice President, Business
Services

Anthony M. Gojmerac
Vice President, Purchasing &
Facilities Officer

Daniel L. Herr
Vice President, Portfolio
Manager

Kevin H. Justice
Vice President, Commercial
Relationship Manager II,
Hagerstown

Bruce A. Mabon
Vice President, Collection &
Assigned Risk Manager

Patrick R. Miles
Vice President, Commercial
Relationship Manager II Altoona

Elizabeth R. Shank
Vice President, Deposit
Operations Manager

Cynthia L. Stewart
Vice President, Manager Loan
Administration

Shana Stiles
Vice President, BSA Assistant
Corporate Services Manager

Charlene J. Tessari
Vice President, Application and
IT Risk Management

Michelle D. Wyandt
Vice President, Supervisor
Credit Analysis

AMERISERV FINANCIAL, INC.

AMERISERV TRUST & FINANCIAL SERVICES COMPANY

Board of Directors

J. Michael Adams, Jr.
Attorney-at-Law
Mike Adams & Associates, LLC

Allan R. Dennison
Non-executive Chairman,
Retired President & Chief
Executive Officer AmeriServ
Financial Bank, and
Non-executive Chairman of the
Board of all Subsidiaries

Craig G. Ford
Non-executive Vice Chairman,
Former President & CEO,
AmeriServ Financial, Inc.,
AmeriServ Financial Bank, and
Non-executive Vice Chairman of
the Board of all Subsidiaries

Richard W. Bloomingdale
President, PA AFL-CIO

James T. Huerth
President & Chief Executive
Officer AmeriServ Trust &
Financial Services Company

George B. Kaufman
Attorney-at-Law

Kim W. Kunkle
President & CEO,
Laurel Holdings, Inc.

Mark E. Miller
Director of Support Services,
Somerset Hospital & President,
Pine Grill, Inc.

Margaret A. O'Malley
Attorney-at-Law
Yost & O'Malley

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The Sargent's Group

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& AmeriServ Financial Bank

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Retired President,
Pennsylvania Electric Company,
GPU Genco, Inc. and GPU
International, Inc. and GPU
Energy, Inc.

General Officers

James T. Huerth
President & Chief Executive Officer

David A. Finui
Executive Vice President, Director
of Wealth and Capital Management

Nicholas E. Debias, Jr., CTA
Senior Vice President,
Senior Wealth Management
Advisor

Bettina D. Fochler
Senior Vice President, Chief
Credit Officer

Wayne Kessler
Senior Vice President, Area
Executive Johnstown

Michael D. Lynch
Senior Vice President, Treasurer

Ernest L. Petersen, III
Senior Vice President, Chief
Administrative Officer &
Diversified Services Manager

Christopher C. Sheedy
Senior Vice President & Trust
Specialty Real Estate Director

Kathleen M. Wallace
Senior Vice President,
Retirement Services Manager

Mary Ann Brustle
Vice President Risk Management &
Trust Compliance Officer

Sharon E. Delic
Vice President, Retirement
Services Officer

Michael P. Geiser
Vice President, Trust Operations
Manager

Dennis E. Hunt
Vice President, Retirement
Services Officer

David M. Margetan
Vice President, Retirement
Services Officer

Justin F. Maser
Vice President, Portfolio Manager

Monica M. Papuga
Vice President, Senior Trust
Accounting Officer

Scott D. Porterfield
Vice President, Wealth
Management Advisor

Trust Company Office Locations

216 Franklin Street
AmeriServ Financial Bank Building
Johnstown, PA 15901-1911

140 South Main Street
Greensburg, PA 15601

WEST CHESTER CAPITAL ADVISORS

Board of Directors

J. Michael Adams, Jr.
Attorney-at-Law Mike Adams &
Associates, LLC

Allan R. Dennison
Non-executive Chairman,
Retired President & Chief
Executive Officer AmeriServ
Financial Bank, and
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AmeriServ Financial Bank, and
Non-executive Vice Chairman of
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James T. Huerth
President & Chief Executive
Officer AmeriServ Trust &
Financial Services Company

Steven M. Krawick, AAMS, CMFC
President & Chief Executive
Officer West Chester Capital
Advisors

Jeffrey A. Stopko, CPA
President & Chief Executive
Officer AmeriServ Financial, Inc.
& AmeriServ Financial Bank

Robert L. Wise
Retired President,
Pennsylvania Electric Company,
GPU Genco, Inc. and GPU
International, Inc. and GPU
Energy, Inc.

General Officers

Steven M. Krawick, AAMS, CMFC
President & Chief Executive
Officer

Michael D. Lynch
Senior Vice President, Chief
Financial Officer & Treasurer

Frank J. Lapinsky
Vice President, Chief
Administrative Officer & Portfolio
Manager

Mary F. Stanek
Vice President, Portfolio Manager

Office Location

216 Franklin Street
AmeriServ Financial Bank Building
Johnstown, PA 15901-1911

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216 Franklin Street | Johnstown, PA 15901
AmeriServ.com | 1-800-837-BANK