"The **Essential Resilience** of our community bank business model was evident in 2020. Despite a year of crisis, it empowered our people to maintain vital services as health-related restrictions tightened, relaxed and tightened again. And it enabled us to deliver a consistently excellent customer experience."

# AmeriServ Financial, Inc.

# 2020

Annual Report

# Contents



# 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

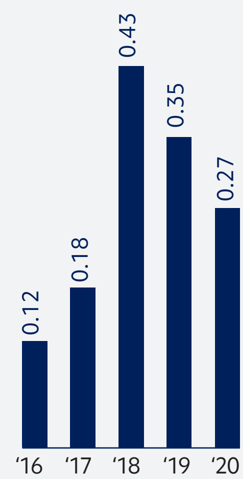
| **Per Share**<br>*$ in thousands except per share amounts* | 2020 | 2019 | Change | Change |
|---|---|---|---|---|
| Net Income | 0.27 | 0.35 | (0.08) | (22.9%) |
| Book Value at December 31 | 6.12 | 5.78 | 0.34 | 5.9% |
| Tangible Book Value at December 31 | 5.42 | 5.08 | 0.34 | 6.7% |
| Dividends Paid | 0.100 | 0.095 | 0.005 | 5.3% |
| Market Value at December 31 | 3.13 | 4.20 | (1.07) | (25.5%) |

| **For the Year** | | | | |
|---|---|---|---|---|
| Net Income | $ 4,598 | $ 6,028 | $ (1,430) | (23.7%) |
| Return on Average Assets | 0.37% | 0.51% | (0.14) | (27.5%) |
| Return on Average Equity | 4.52% | 6.02% | (1.50) | (24.9%) |

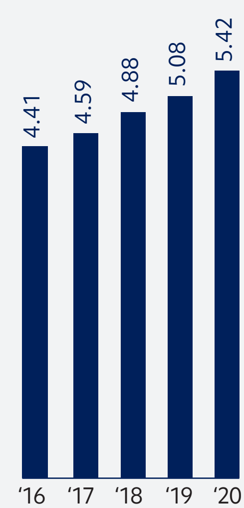
| **At Year-End** | | | | |
|---|---|---|---|---|
| Assets | $ 1,279,713 | $ 1,171,184 | $ 108,529 | 9.3% |
| Loans | 978,345 | 887,574 | 90,771 | 10.2% |
| Deposits | 1,054,920 | 960,513 | 94,407 | 9.8% |
| Nonperforming Loans/Total Loans | 0.34% | 0.26% | 0.08 | 30.8% |

| **2020 Capital Returns** | |
|---|---|
| 2020 Net Income | $ 4,598 |
| Common Stock Repurchase Program | 151 |
| Common Stock Dividend Payments | 1,716 |
| Total Capital Returned to Shareholders | $ 1,867 |
| % of Earnings Returned to Shareholders | 40.6% |

**Earnings Per Share**
*(in dollars)*




**Tangible Book Value Per Share**
*(in dollars)*



# A Message To Our Shareholders

The essential resilience of our community bank business model was evident in 2020. Despite a year of crisis, it empowered our people to maintain vital services as health-related restrictions tightened, relaxed and tightened again. And it enabled us to deliver a consistently excellent customer experience.

This Annual Report pays tribute to the resilience that flourished in our branch teams, who adapted to unfamiliar, contact-free settings; in our IT group, who almost overnight equipped a brand-new remote workforce for exceptional productivity; in every member of our Retail Banking, Commercial Banking, Wealth Management, Retail Lending, and operations and support teams; and in our customers and the communities they call home.

You'll find the details in the following pages. But, first let's set the scene.

To begin, there was no way to anticipate the sudden and complete lockdown of the nation's economy. At first, we were told that it would be a short-term event. Yet economic uncertainty dominated the first half of the year, as businesses nationwide hit the brakes on capital investment and commercial borrowing. At AmeriServ, however, careful stewardship sustained us until business activity showed signs of recovery. In the end, we experienced record levels of loans and deposits.

## Adjusting, Resiliently

Early on, the government moved to create stimulus programs designed to protect financial markets. Some businesses increased their borrowings; others decreased their borrowings. The consumer on the street adapted to locked doors at bank branches, while digital banking emerged as the fail-safe, showing bankers and customers alike a way to carry on during the pandemic. In all of those adjustments the inborn common sense of everyday Americans came to the fore.

Take the people of AmeriServ. They've always been good bankers and good neighbors—but never more so than in 2020. Many members of our lending staff worked nights and weekends, channeling funds to small businesses, so they could keep their workforces employed. Other staffers put in extra days, when Covid-19 issues sidelined their colleagues. For all of us, it's been a marvelous experience to be needed, to be asked for advice, to be able to help. Face masks and plastic shields have separated us, but the sense of community is stronger than ever.

Social-distancing constraints accelerated customer demand for seamless virtual banking, as a sharp increase in AmeriServ website traffic demonstrated. From March to May alone, visits to ameriserv.com rose by over 34 percent. More online-banking customers logged in and opened accounts than we had seen in the previous three years.

## An Extraordinary Year for Loans

When the Federal Reserve plunged interest rates to virtually zero, consumers flooded AmeriServ with requests for home mortgage refinancing. Their goal was not to increase their spending money, but to reduce their housing costs—and to save the difference. It was another example of common-sense protection of family and home. It enabled us to reach a new record of $142 million in mortgage production.

Driving AmeriServ's growth, closer to home, were our continually expanding relationships with lending partners like the Pennsylvania State Education Association (PSEA), for whom we've managed well over $250 million in membership loans since 2013. In 2020, those loans totaled $75 million.

During the summer lockdown, at the urging of the Federal Reserve, we had initiated deferral agreements with loan customers handicapped by government restrictions. But, by September, enough businesses were functioning that conventional loan growth began anew. Thus, by December 31, AmeriServ's outstanding loans had grown in 2020 by almost $91 million, or 10 percent.

Our participation in the CARES Act Paycheck Protection Program (PPP) also helped redeem a difficult year. The 480 PPP loans that we provided helped struggling businesses stay open, preserving jobs for more than 11,000 employees whose much-needed paychecks permitted them to meet their mortgage payments.

To sustain other critical relationships, we engaged proactively with borrowers who needed payment deferrals or relief to get through challenging times. At the end of 2020, fourteen of our commercial borrowers still had been unable to resume their loan-payment schedules. Because we believe the pandemic, which was not of their making, soon will be fully controlled, we continue to work with them—and their $50 million in loans. We have taken the necessary steps by building on our allowance for loan losses so there will be no question about the survival of this franchise.

### A Surprising Rise in Deposits

Meanwhile, economists thought that stimulus funding would maintain consumer and commercial spending. But Americans said no. Some focused on debt reduction, while others braced for new risks they only partially understood. In any case, we watched deposit levels rise. Customers were becoming more liquid, and so was AmeriServ. During 2020, total deposits from businesses and consumers at AmeriServ grew by almost $95 million, or 11 percent—and this growth has continued into early 2021.

For the first time in our company's history, total deposits surpassed $1 billion.

### Adaptable Investment Strategies

The value of diversification was clear in 2020, as 31 percent of our total revenue came from non-interest income sources—including record contributions from our wealth management business and residential mortgage operation.

As a portion of the stimulus money found its way to Wall Street, our Wealth Management professionals adjusted their practices to benefit our clients. The lockdown had punished the market, but our investment managers began to seek out the market segments that were recovering. Net result: During 2020, our clients' holdings increased by $243 million, or 11 percent. This growth raised the market value of the total assets we managed or administered to a record high of $2.481 billion by December 31.

### Milestones Undeterred by the Pandemic

Last year, we laid the groundwork for the acquisition of Riverview Bank's Citizens Neighborhood Bank (CNB). Now this addition to our core markets has brought us two former Somerset County CNB branches with deposits totaling about $48 million. We have acquired a branch location in Meyersdale, along with the deposits from both the Meyersdale and the Somerset Riverview offices. Deposits from the Riverview Somerset office will transfer to the neighboring full-service AmeriServ office at 108 West Main Street. The conversion from Riverview to AmeriServ is planned for May of this year.

Finally, in 2020 we witnessed turning points in the careers of two esteemed colleagues:

Heartfelt thanks, from all of us, to Bob Wise, a steadying influence on the Ameriserv Board of Directors since 1986. Bob announced his retirement from the Board in April of 2020.

And a sincere welcome to Dan Onorato, who in May, 2020, was appointed an independent director. A respected business leader in our region, Dan will add immeasurable value to the Board and to AmeriServ over all.

The pandemic transformed both life and business during one of the banking sector's toughest years since the financial crisis of 2008. But, as you will see in this report, we've maintained a strong balance sheet while managing our businesses conservatively. Thank you once again for the confidence you've expressed by your ownership of AmeriServ shares, and for the personal resilience you've exhibited in staying the course.

Lately we've been reminded that ours is, indeed, an "essential business." That's an honor that will remain top-of-mind as we foster the best interests of our shareholders, customers, staff and communities. In the meantime, here's to a prompt return to everyday life, and a prosperous 2021.

Allan R. Dennison

**Allan R. Dennison**

*Chairman*

Jeffrey A. Stopko

**Jeffrey A. Stopko**

*President & CEO*

# Technology

## SUDDENLY REMOTE; SEAMLESSLY PRODUCTIVE

In mid-March, when the White House declared a national emergency, AmeriServ didn't have a single formally-defined telecommuter. Shortly thereafter, nearly 200 members of our 335-person workforce had gone fully remote. Yet, as far as most of our customers were concerned, we never missed a beat.

Adaptability, long hours and singular dedication accounted for much of the success, but none of it would have been possible without fast footwork in IT. Starting from scratch, our technology team rapidly sourced equipment, developed policies and reconfigured an entire user base, from Call Center to Trust Operations, to work from home.

### Acquiring the Right Tools

Leading the list of challenges was a national hardware shortage. We were competing with thousands of businesses for laptops fit to handle the data, apps and clouds our people typically accessed from AmeriServ desks. Resourcefully, IT tracked down a cache of suitable machines at a locked-down university in our community. Sixty brand-new computers quickly followed as retail channels opened up.

Further mission-critical upgrades included multi-factor authentication for teleworking employees to block unauthorized access, and multi-platform digital tablets, designed to streamline labor-intensive, manual document review and markup.

As communication and collaboration became more critical, we helped our remote workforce stay connected by enhancing video-conferencing and instant-messaging capabilities, and enabling remote workers to use their computers as phones, closely replicating normal office efficiency.

### Keeping Customers in the Loop

Communication is also essential to a positive customer experience. That's why we emphasized reassurance and useful information in one of our earliest pandemic responses, a timely addition to our corporate website. At the outset of the pandemic, we splashed a "COVID-19 Information" banner across our home page, linked to a continually updated series of customer-oriented bulletins.

As the year went on, new developments such as the CARES Act left consumers and businesses hungry for reliable information. In response, we initiated an online PPP loan feature that offers current text and video resources, including instructions on applying for loan forgiveness.

### Beyond Customer Experience

Seamless high performance continued behind the scenes as well. In the middle of our digital shift, AmeriServ's systems passed a rigorous third-party network security assessment, and the annual Sarbanes-Oxley Act compliance review. Meanwhile, as the pandemic's staying power became evident, our IT team collaborated with Marketing and Shareholder Relations to migrate the annual shareholder meeting to a virtual stage.

To the outside world, operations and customer service in 2020 looked like business as usual—or, as time went on, better than usual. On the inside, the lean resilience of an effective community bank had already prepared us to match the performance of larger banks with established remote workforces.

Jim Ryan

*Jim Ryan, Vice President,*
*Director of Information Technology*

Cathy Torok

*Cathy Torok, Chief Information*
*Security Officer*

## **RESILIENCE** at Work

Cyberattacks and fraud had long been two of the financial sector's greatest risks. Then the pandemic exploded. Sudden change and uncertainty created fresh opportunities for hackers and scammers. In 2020, AmeriServ speedily deployed three classes of countermeasures: technology, policy and education.

In technology, we hit the ground running. We already were well prepared to fend off threats to customer—and company—data. We gained momentum from our pre-existing emphasis on technical superiority and penetration testing, and continued to block attacks.

Our cybersecurity policies, backed by detailed business continuity and disaster recovery plans, adapted smoothly to high-stakes conditions. We accelerated the ongoing transition from manual to digital processes, and established security measures for a new contingent of remote workers.

And, on the education front, we maintained our long commitment to knowledge sharing. We showed business customers where their vulnerabilities might lie, how to respond to an attack, and, if necessary, how to recover afterward. For our customers, we offered practical advice on fraud detection and scam avoidance.

Working closely with our peers all across AmeriServ, we continued to reinforce cybersecurity for customers and company alike.

# Commercial Banking

## VIRTUAL BANKING: TURNING NECESSITY TO ADVANTAGE


A year of record growth in deposits and loans—crowned by a strong fourth quarter for funding new commercial loans—would be significant under any conditions.

But we achieved those results even as a pandemic multiplied the stress of competitive trends, such as the demand for branchless mobile banking. In the process, our people and our systems revealed a noteworthy ability to forge ahead in the face of adversity. Under our Financial Banking Center model, AmeriServ's Commercial Banking and Business Services units worked closely together, especially in new markets outside our historic core footprint.

### Best Practices, Stronger Relationships

In 2020, our Commercial Banking team applied best practices to underwriting while prudently managing both risk and customer relationships. Resiliently working around COVID-19's restrictions, we got to know new and existing customers by guiding them along the path to loan origination.

We had known that 2020 would be a year in which a growing segment of our customer base would adopt mobile banking apps and online banking in general. The pandemic accelerated that trend. After the massive account conversion effort of 2018 - 2019, Business Banking was off to a solid start. Customers embraced online services like mobile check deposit, credit card plans and merchant services. They gained confidence in depth from security features such as automated clearing house debit blocks and positive pay.

### Proactive Dedication

At the corporate level, preparedness, flexibility and a solid Strategic Plan kept AmeriServ effective and productive. But the spirit and drive of our people on the ground earned high marks as well. Consider, for example, the extraordinarily long hours so many devoted to rapidly processing almost 480 Small Business Administration Paycheck Protection Program (PPP) loans, worth more than $69 million. In just a few weeks, our effort to assist small businesses incurred 2.5 times the business loan workload we logged in all of 2019.

Incidentally, in December, 2020, Congress passed a new, $900 billion relief bill, which includes a $284.5-billion PPP reboot. Our PPP customer support will continue in 2021, as will our work with borrowers like those who needed payment deferrals or relief to get through 2020's challenges.

## **RESILIENCE** at Work

As 2020 progressed, we navigated an increasingly turbulent environment with an expanding suite of services. Recognizing the stressful conditions many businesses were undergoing, we emphasized proactive maintenance and support, an approach we feel will pay off in stronger relationships in the coming year.

We also ramped up customer training. To circumvent obstacles to our traditional on-site coaching, we developed customized, online programs that increased customer satisfaction and cultivated growth in service volume.

Amid all this activity, our actual 2020 net loan charge-offs amounted to only $309,000. Meanwhile, we strengthened our allowance for loan losses due to pandemic-related economic uncertainty, to bolster our reserves against loans in the hospitality sector.

All in all, despite the array of uncertainties facing us and our business community in 2021, we're confident in our immediate prospects, and the strong chance of a sustained recovery.

Michael Baylor

*Michael Baylor, Executive Vice President/*
*Chief Commercial Banking Officer*

# Wealth Management

## IN A STORMY PASSAGE, ONE CALM VOICE

For many investors, navigating 2020 was like riding out a hurricane. Storms and pandemic years both involve risk and uncertainty, and surviving either kind of disruption depends heavily on good communications. That's why, last year, we took the lead in quietly offering our clients calm, levelheaded advice—often before they realized they needed it.

### Living the Financial Partner for Life Philosophy

This outreach was a natural expression of our Financial Partner for Life philosophy. Among its phases: a series of topical white papers issued by our registered investment advisor, West Chester Capital Advisors; and an accelerated program of personal phone conversations with many of our clients. We discussed the progress their accounts were making, and, when appropriate, urged restraint despite the pandemic-induced bear market.

Among those and other pandemic-related activities, we maintained our usual productive focus, adapting quickly to low-travel, minimal-contact measures. When face-to-face conversations were essential, we found ways to accommodate health considerations as well as client preferences.

In retirement financial planning, a product called the Wealth2K Income for Life Model® continued to draw favorable attention. The Income for Life Model quickly computes complex financial assessments and presents them as easy-to-understand retirement forecasts. AmeriServ's relationship with Wealth2K encouraged more than 500 potential clients to request Income for Life Model assessments in the past three years; 150 of those requests reached us in 2020.

### ERECT Fund Projects

Our wealth management business also encompasses the Employee Real Estate Construction Trust (ERECT) Fund, which invests union pension dollars in projects that employ union labor. In 2020, the funding our team handled totaled $95 million in projects across western Pennsylvania and eastern Ohio, generating 480,000 working hours at union wages. Over the past three decades, ERECT has funded projects worth more than $2 billion.

### Positive Performance, Day-to-Day

Overall, 2020 was a positive year for AmeriServ Trust and Financial Services Company, and for West Chester Capital Advisors. As usual, millions of dollars flowed from our beneficiaries into the regional economy. Additionally, certain AmeriServ client trusts were channeled into non-profits and charitable organizations as a means of helping to support their ongoing missions. And the more than $1 billion in retirement assets that we managed generated financial security for thousands of individuals and families.

For the third year in a row, our company set a new record for assets under management or administration—a total of $2.481 billion. Likewise, it was our third consecutive year of record profitability with 2020 net income exceeding $2 million. Of banking institutions nationwide with assets of $1 to $3 billion, AmeriServ Trust and Financial Services Company ranks in the 98th percentile for assets under administration.

Jim Huerth

*Jim Huerth, President & CEO of AmeriServ Trust and Financial Services Company*

Steven Krawick

*Steven Krawick, President & CEO, West Chester Capital Advisors*

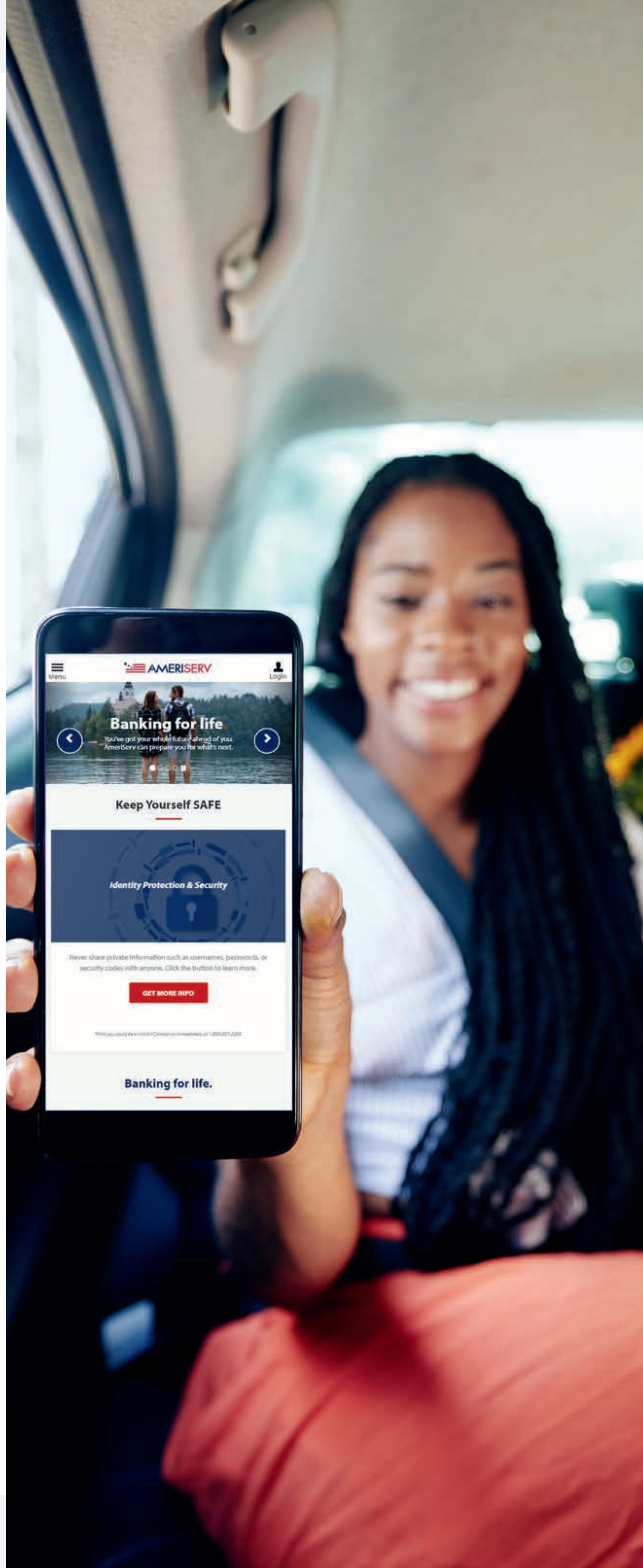
## **RESILIENCE** at Work

In the long run, our clients regard us as trusted navigators who safeguard their interests by remaining unruffled even in uncertain, risky situations like the COVID-19 pandemic. They welcome our individualized, goals-based advice, with its historically proven results. We extend it because experience shows that attention, guidance and reassurance tend to reinforce client loyalty, year after year.

# Retail Banking

## SIX FEET APART, BUT CLOSER THAN EVER

Here at AmeriServ, we've never witnessed a disruption like the lockdown months of 2020. The crisis sparked an insight: For our customers, personal life and financial life are one and the same. That's why so many sought reassurance that we'd "be there" for them, as we guided them toward new ways of banking. The resilience we shared demonstrated the value of Banking for Life, even in the face of a global pandemic.



### Upholding Customer Experience

Maintaining our community-friendly identity was a challenge.

Lobby closings were unavoidable, but they bought us time to enhance customer and staff safety. Rapidly developed messaging kept customers and employees well informed. Our drive-up lanes stayed open, and, for non-driving customers, we converted the security station in our downtown Johnstown office into a "pedestrian drive-up." When personal interaction was truly essential, we arranged contact-free appointments, which lent continuity to lifetime occasions like opening a new account, saving for the future, buying a home, or planning for retirement.

### Meeting a Surge in Deposits

Although over-the-counter transactions trailed 2019 activity, 2020 did show positive developments.

Personal savings broke decades-old records. In fact, deposit totals surpassed 2019 levels in all of our offices. What's more, for the first time in our history, consumer deposit accounts grew beyond $1 billion.

### Acquiring New Customers

With notable flexibility and creativity, our team welcomed a flood of new customers whose larger banks had left them behind in Windber, downtown Johnstown and Central City, Pa.

Our well-timed, strategically targeted marketing efforts persuaded consumers in these markets to open new accounts with us. Our consistent message: *We aren't going anywhere.* As a result, we gained customers, deposits, market share, loyalty and trust. Thanks to AmeriServ, local people could keep on banking close to home.

## **RESILIENCE** at Work

As a school-district banker, AmeriServ sponsors financial-literacy programs for students. We've noticed that parents who accompany their children ask most of the questions. That suggests that almost everyone can profit from a better understanding of finance and financial health. So, when the world bounces back to normal, we plan to launch a financial-literacy series for all customers.

### Promoting Online Banking

The COVID-19 outbreak was an online-banking watershed.

Fortunately, we'd already invested time and resources in making it easier to bank online. Under pandemic conditions, our updated online support was ready to help customers pivot to digital with confidence. Most of those who still preferred to bank in person found our drive-up windows a convenient answer to their everyday needs. Meanwhile, we made sure our customers understood the strict measures we'd taken to safeguard their funds, identities, and accounts.

Kerri Mueller

*Kerri Mueller, Senior Vice President, Retail Banking*

# Retail Lending

## A RECORD-SETTING YEAR, IN SPITE OF IT ALL

Across our market region, as across the country, 2020 was the year when isolation and caution replaced personal contact and familiar routine. Yet, in life and business, we found new ways to grow. In the end, it was quite a profitable year.

### Successes on the Mortgage Side

Mortgage lending and refinancing activity flourished, driven by consumers with an eye on historically low interest rates. Many had devoted pandemic-enforced days at home to online research, discovering opportunities to lock in substantial long-term savings. Our loan originators found them eager to refinance mortgages—or to secure new ones, seizing the chance to purchase homes that would have been out of reach a few years ago.

All that activity made 2020 a banner mortgage-origination year for AmeriServ, marked by a total of $142 million in residential mortgage loan production—237 percent of the $60 million level achieved for all of 2019.

Our response to this intense demand would have been impossible without the extraordinary efforts of our mortgage operations staff. They responded to what seemed at times to be an overwhelming workload by logging countless hours, late nights and weekends. Their tireless spirit enabled AmeriServ to process,

underwrite and close a record dollar amount of transactions, while delivering the well-ordered experience our customers have come to expect.

### A Rewarding Preferred Partnership

In 2020, Retail Lending profitability across the board gained further momentum from our long relationship with the Pennsylvania State Education Association (PSEA). For the year, our total PSEA loan business exceeded $75 million. From 2019 to 2020, we more than doubled our loan production.

A little background: After AmeriServ was designated a PSEA preferred lending partner in 2013, our services steadily gained acceptance across Pennsylvania, especially in urban areas. Since then, we have written more than $250 million in mortgages, home equity loans and personal lines of credit for PSEA union members. Today, PSEA loans make up about 16 percent of AmeriServ's consumer lending portfolio.

This is a relationship we're determined to cultivate, considering its potential: To date, we have served only about 1,000 of PSEA's 180,000 members—whose union benefits extend to their families as well.

### Stability in Consumer Lending

Notable as it was, the lending spike had a down side, as it indirectly helped slow the demand for consumer loans. Many new mortgage customers found themselves holding fresh infusions of cash at a time when COVID-19 restrictions limited their spending options. As a result—and reflecting national trends—our success in producing home equity, personal, auto and other consumer loans is best described as moderate.

As stressful and (in too many cases) tragic as 2020 was, we're highly optimistic. Market forces, travel restrictions and social distancing taught us to be more creative than ever before in originating business. Our Banking for Life philosophy kept us focused on customer experience. And the results have positioned us to deliver shareholder rewards in 2021.

Rusty Flynn

*Rusty Flynn, Senior Vice President,*
*Consumer Lending*

## **RESILIENCE** at Work

This was the year we learned how to adapt; to work smarter, remotely; to minimize travel; to collaborate with vendors on solutions that would get the customer to closing. Throughout the challenges of the pandemic, we honored our commitments to our customers. As a result, our numbers are very strong, and we're going to have a robust start in 2021. All this will continue to evolve, and we'll be utilizing many kinds of technologies, both for the safety of employees and the efficiency of the operation. A lot of positive, ongoing developments will come out of the conditions we faced in 2020.

# Community

## LOCKED DOWN, BUT REACHING OUT AND GIVING BACK

For AmeriServ people, caring for the communities where we live and work is a decades-old tradition. We lend support to non-profits and charities through corporate sponsorships and, individually, through volunteer work. Often those contributions have helped to bring people together in groups.

When the social landscape suddenly changed in 2020, we realized that almost all in-person events would be cancelled or transitioned to virtual settings. Under those conditions, how could our culture of generosity remain vibrant and relevant? Here are a few of the ways we responded:

## Fostering Research and Online Learning

Every spring, AmeriServ is a corporate sponsor of the Taunia Oechslin Girls Night Out (GNO) — a fundraiser for breast cancer awareness. When it was canceled, we created our own GNO fundraiser and combined it with the Johnstown Tribune-Democrat's October Breast Cancer Awareness Month. Further, for every account opened in October, we pledged $25.00 to the Joyce Murtha Breast Care Center in Windber, Pa. The result was a sizable boost in donations for cancer research.

When we learned how many local children still lacked home internet access, we collaborated with some of our business neighbors to create a virtual learning center at the Flood City Youth Academy in downtown Johnstown. In all, we helped to provide 32 computers, plus the funds needed to furnish 60 workstations. AmeriServ also supplied IT expertise to ensure a smooth September, 2020, launch.

## Introducing Diversions, Fostering Food Security

With vacation trips, picnics and even a dip in the public pool all on hold, it turned out to be a very long summer. In July, we improvised some fun on social media by engaging our followers in an Instagram contest called Paws for a Cause. We aimed to spread joy and give something back to local animal shelters, hard-hit by the pandemic's claims on the world's attention.

Paws for a Cause invited our Instagram and Facebook followers to submit photos of their pets, and to vote for their favorites, online. Owners of the winning critters won cash prizes, plus credit for donations to the pet-oriented causes of their choice. Community support was enthusiastic, and Paws for a Cause earned $1,000 for local animal welfare charities.

And still the year wore on. Knowing the holidays would look different this year, we collectively donated $25,000 to five food banks in the markets we serve in hopes of reducing food insecurity for those who would struggle through the season.

Together, we're looking forward to the return of everyday life in 2021—a life in which we can attend fundraisers, social events and even business meetings in person. Until that time comes, we'll try to make the days a little easier and more interesting, within the bounds of community health and safety.

Susan Tomera Angeletti

*Susan Tomera Angeletti, Senior Vice President and Director of Corporate Marketing and Alternative Delivery Systems*

## **RESILIENCE** at Work

As schools closed to prevent the spread of COVID-19, students without home computers or internet access faced serious barriers to remote learning. According to the National Center for Education Statistics, last fall more than 9 million American schoolchildren would find it difficult to complete online assignments at home. AmeriServ's support for the Flood City Youth Academy virtual learning center helped to connect Johnstown and surrounding area students with technology essential to education for remote learning.

# Branch Locations

**AmeriServ Financial Bank Office Locations**

Headquarters

Main Office Johnstown
216 Franklin Street
Johnstown, PA 15901
1-800-837-BANK (2265)

Carrolltown
101 South Main Street
Carrolltown, PA 15722

Central City
104 Sunshine Avenue
Central City, PA 15926

Derry
112 South Chestnut Street
Derry, PA 15627

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 North 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
6858 Route 711, Suite 1
Seward, PA 15954

Somerset
108 West 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

**AmeriServ Loan Production Locations**

Altoona
3415 Pleasant Valley Boulevard
Pleasant Valley Shopping Center
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, 2020**

**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**<br>(State or other jurisdiction of incorporation or organization) | **25-1424278**<br>(I.R.S. Employer Identification No.) |
| **MAIN & FRANKLIN STREETS, P.O. BOX 430, JOHNSTOWN, PENNSYLVANIA**<br>(Address of principal executive offices) | **15907-0430**<br>(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 | Trading Symbol | Name of Each Exchange On Which Registered |
|---|---|---|
| Common Stock, Par Value $0.01 Per Share | ASRV | The NASDAQ Stock Market LLC |
| 8.45% Beneficial Unsecured Securities, Series A (AmeriServ Financial Capital Trust I) | ASRVP | The NASDAQ Stock Market LLC |

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

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

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☒
Emerging growth company ☐

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

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

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

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 $47,804,311 as of June 30, 2020.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. There were 17,066,164 shares outstanding as of February 28, 2021.

## DOCUMENTS INCORPORATED BY REFERENCE.

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

## FORM 10-K INDEX

# PART I

## ITEM 1.   BUSINESS

## GENERAL

AmeriServ Financial, Inc. (the Company) is a bank holding company organized under the Pennsylvania Business Corporation Law. The Company became a holding company upon acquiring all of the outstanding shares of AmeriServ Financial Bank (the Bank) in January 1983. The Company's other wholly owned subsidiary is AmeriServ Trust and Financial Services Company (the Trust Company) which was formed in October 1992.  AmeriServ Life Insurance Company (AmeriServ Life), formed in October 1987, was a captive insurance company that engaged in underwriting as a reinsurer of credit life and disability insurance.  New business ceased being generated by AmeriServ Life in 2005.  Since that time, the outstanding insurance policies have been running off and the final policy has expired.  On September 30, 2020, the Arizona Corporation Commission approved the Articles of Dissolution for AmeriServ Life.  The remaining assets of AmeriServ Life were transferred to AmeriServ Financial, Inc. and the subsidiary was formally closed on December 31, 2020. 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 two wholly owned subsidiary entities. At December 31, 2020, the Company had, on a consolidated basis, total assets, deposits, and shareholders' equity of $1.3 billion, $1.1 billion, and $104.4 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 branch 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, and money orders; 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 a subsidiary of the Bank. The Company also operates loan production offices (LPOs) in Altoona and Wilkins Township in Pennsylvania.

On January 15, 2021, the Company announced the execution of a definitive agreement whereby AmeriServ Financial Bank will acquire from Citizen's Neighborhood Bank (CNB), an operating division of Riverview Bank, its branch and deposit customers in Meyersdale, as well as its deposit customers at its leased branch in the Borough of Somerset.  Both of these locations are in Somerset County in southwestern Pennsylvania.  The transaction is subject to regulatory approvals and satisfaction of customary closing conditions and is expected to close in the second quarter of 2021.

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, 2020:

| Headquarters | Johnstown, PA |
|---|---|
| Total Assets | **$ 1,265,574** |
| Total Investment Securities | **181,820** |
| Total Loans and Loans Held for Sale (net of unearned income) | **978,345** |
| Total Deposits | **1,055,120** |
| Total Net Income | **5,792** |
| Asset Leverage Ratio | **9.03 %** |
| Return on Average Assets | **0.47** |
| Return on Average Equity | **5.32** |
| 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. Additionally, in 2020, the Company focused on the risks surrounding the COVID-19 pandemic which presented new challenges. The Company seeks to identify, manage and monitor 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, at a minimum, 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 monitor 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 monitor 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 monitor and manage credit risk. The Company's investment policy and hedging policy seeks to 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 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.

The commercial loan segment also includes Paycheck Protection Program (PPP) loans. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) authorized the Small Business Administration (SBA) to guarantee 100% of the PPP loans made to eligible borrowers pursuant to standards as defined by the SBA. The SBA guarantee on PPP loans minimizes the level of credit risk associated with the loans. As a result, such loans are assigned a 0% risk weight for purposes of calculating the Company's risk-based capital ratios. Therefore, it was deemed appropriate to not allocate any portion of the loan loss reserve for the PPP loans.

**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.

The Company utilizes a robust and diligent risk management framework to monitor 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 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, 2020 | 2019 | 2018 |
|---|---|---|---|
| | (IN THOUSANDS) | | |
| U.S. Agency | **$ 2,971** | $ 5,084 | $ 7,685 |
| Municipal | **19,000** | 14,678 | 13,301 |
| Corporate bonds | **52,315** | 39,769 | 37,359 |
| U.S. Agency mortgage-backed securities | **65,398** | 80,046 | 90,169 |
| Total cost basis of investment securities available for sale | **$ 139,684** | $ 139,577 | $ 148,514 |
| Total fair value of investment securities available for sale | **$ 144,165** | $ 141,749 | $ 146,731 |

Investment securities held to maturity at:

| | AT DECEMBER 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| | (IN THOUSANDS) | | |
| Municipal | **$ 30,076** | $ 24,438 | $ 24,740 |
| U.S. Agency mortgage-backed securities | **8,119** | 9,466 | 9,983 |
| Corporate bonds and other securities | **6,027** | 6,032 | 6,037 |
| Total cost basis of investment securities held to maturity | **$ 44,222** | $ 39,936 | $ 40,760 |
| Total fair value of investment securities held to maturity | **$ 47,106** | $ 41,082 | $ 40,324 |

**DEPOSITS**

The Bank has a stable core deposit base made up of traditional commercial bank products that exhibit modest fluctuation during the year, other than jumbo certificates of deposits (CDs) and certain municipal deposits, which demonstrate some seasonality. The Company also utilizes certain Trust Company specialty deposits related to the ERECT funds 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, 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| | (IN THOUSANDS, EXCEPT PERCENTAGES) | | | | | |
| Demand: | | | | | | |
| Non-interest bearing | **$ 175,336** | **— %** | $ 151,292 | — % | $ 174,108 | — % |
| Interest bearing | **175,088** | **0.28** | 170,326 | 0.94 | 138,572 | 0.82 |
| Savings | **104,442** | **0.14** | 96,783 | 0.17 | 98,035 | 0.17 |
| Money market | **234,771** | **0.44** | 234,387 | 1.08 | 249,618 | 0.87 |
| Certificates of deposit in denominations of $100,000 or more | **42,910** | **1.56** | 36,324 | 2.33 | 31,893 | 1.66 |
| Other time | **302,318** | **1.75** | 290,543 | 2.09 | 267,498 | 1.70 |
| Total deposits | **$ 1,034,865** | **0.89 %** | $ 979,655 | 1.35 % | $ 959,724 | 1.07 % |

The maturities on CDs of $100,000 or more as of December 31, 2020, are as follows:

| | (IN THOUSANDS) |
|---|---|
| MATURING IN: | |
| Three months or less | **$ 16,918** |
| Over three through six months | **8,139** |
| Over six through twelve months | **20,589** |
| Over twelve months | **3,285** |
| Total | **$ 48,931** |

## LOANS

The loan portfolio of the Company consisted of the following:

| | AT DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | (IN THOUSANDS) | | | | |
| Commercial: | | | | | |
| Commercial and industrial | **$ 151,262** | $ 174,021 | $ 158,306 | $ 159,219 | $ 171,570 |
| Paycheck Protection Program (PPP) | **59,099** | — | — | — | — |
| Commercial loans secured by owner occupied real estate(1) | **95,528** | 91,693 | 91,938 | 89,979 | 91,861 |
| Commercial loans secured by non-owner occupied real estate(1) | **401,056** | 363,882 | 356,805 | 374,173 | 355,172 |
| Real estate – residential mortgage(1) | **249,989** | 235,239 | 237,964 | 247,278 | 245,765 |
| Consumer | **16,363** | 18,255 | 17,591 | 19,383 | 19,872 |
| Total loans | **973,297** | 883,090 | 862,604 | 890,032 | 884,240 |
| Less: Unearned income | **1,202** | 384 | 322 | 399 | 476 |
| Total loans, net of unearned income | **$ 972,095** | $ 882,706 | $ 862,282 | $ 889,633 | $ 883,764 |

(1) For each of the periods presented beginning with December 31, 2020, real estate construction loans constituted 7.0%, 4.9%, 3.5%, 4.1%, and 4.7% 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, some of which are sold to outside investors in the secondary market and some of which are retained for the Bank's portfolio. Mortgages sold in 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, and quality non-salable loans. These loans are usually kept in the Bank's portfolio.

### Non-performing Assets

The following table presents information concerning non-performing assets:

| | AT DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | (IN THOUSANDS, EXCEPT PERCENTAGES) | | | | |
| Non-accrual loans: | | | | | |
| Commercial and industrial | **$ 16** | $ — | $ — | $ 353 | $ 496 |
| Commercial loans secured by owner occupied real estate | **—** | — | — | 859 | — |
| Commercial loans secured by non-owner occupied real estate | **8** | 8 | 11 | 547 | 178 |
| Real estate – residential mortgage | **2,469** | 1,479 | 1,210 | 1,257 | 929 |
| Consumer | **7** | — | — | — | — |
| Total | **2,500** | 1,487 | 1,221 | 3,016 | 1,603 |
| Other real estate owned: | | | | | |
| Commercial loans secured by owner occupied real estate | **—** | — | 157 | — | — |
| Real estate – residential mortgage | **—** | 37 | — | 18 | 21 |
| Total | **—** | 37 | 157 | 18 | 21 |
| Restructured loans not in non-accrual (TDR) | | | | | |
| Commercial and industrial | **831** | 815 | — | — | — |
| Total | **831** | 815 | — | — | — |
| Total non-performing assets including TDR | **$ 3,331** | $ 2,339 | $ 1,378 | $ 3,034 | $ 1,624 |
| Total non-performing assets as a percent of loans, net of unearned income and other real estate owned | **0.34 %** | 0.26 % | 0.16 % | 0.34 % | 0.18 % |

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, | | | | |
|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** |
| | (IN THOUSANDS) | | | | |
| Interest income due in accordance with original terms | **$ 87** | $ 57 | $ 75 | $ 103 | $ 118 |
| Interest income recorded | **—** | — | — | (75) | — |
| Net reduction in interest income | **$ 87** | $ 57 | $ 75 | $ 28 | $ 118 |

## AMERISERV FINANCIAL NON-BANKING SUBSIDIARY

## 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 43 professionals administers assets valued at approximately $2.5 billion that are not recognized on the Company's balance sheet at December 31, 2020. 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 provide the sale of mutual funds, annuities, and insurance products. The wealth management business also includes the union collective investment funds, the ERECT funds, which are designed to use union pension dollars in construction projects that utilize union labor. At December 31, 2020, the Trust Company had total assets of $6.4 million and total stockholder's equity of $6.3 million. In 2020, the Trust Company contributed earnings to the Company as its gross revenue amounted to $9.6 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.

## MONETARY POLICIES

Commercial banks are affected by policies of various regulatory authorities including the Board of Governors of the Federal Reserve System (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 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, financial technology firms, and pension trusts are important competitors for various types of financial services. Personal and corporate trust investment counseling services are offered by insurance companies, other firms, and individuals. In addition, some of these competitors, such as credit unions, are subject to a lesser degree of regulation or taxation than that imposed on us.

**MARKET AREA & ECONOMY**

The COVID-19 pandemic has negatively impacted the U.S. and global economy, as well as the local economies in which we operate, creating significant volatility and increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many local businesses and/or businesses operating at reduced capacity. The return to normal operating conditions has been slow and is expected to last into the foreseeable future. The institution of social distancing requirements in many states and communities, including those in our footprint will continue. Governmental authorities have taken significant measures to provide economic assistance to individual households and businesses, stabilize the markets, and support economic growth. The economy has recently shown signs of a rebound in conjunction with further government aid, the February 2021 slowdown in COVID-19 infections, and the hope that exists because of the distribution of a vaccine. The success of the measures taken by the government is becoming apparent, but they may not be sufficient to fully mitigate the negative impact of the pandemic. The virus continues to weigh on economic activity, and many economic key indicators remain depressed. The length of the pandemic and the effectiveness of the measures being put in place to address it are not completely known. The economy and its recovery remain vulnerable. Economists say the factors leading up to the current economic slowdown, such as how fast it hit and who it is affecting, are different from previous economic downturns and may lead to a different outcome. The unfavorable impact that the pandemic has had and is having on our market area is clearly evident in the increases to the unemployment rates between years in the various core markets that we serve as noted in the following discussion.

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, each of which draw several thousand visitors. The Johnstown, PA MSA unemployment rate increased from a 5.0% average in 2019 to a 9.6% average in 2020. 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 increased from a 3.1% average in 2019 to a 5.8% average in 2020 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 2019 to a 6.5% average in 2020.

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 increased from a 4.1% average in 2019 to a 9.3% average in 2020.

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 average unemployment rate in the Altoona MSA increased from 4.2% in 2019 to 8.7% in 2020.

**EMPLOYEES**

The Company employed 314 people as of December 31, 2020 in full- and part-time positions. Approximately 148 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 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 insurance 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. The Economic Growth, Regulatory Relief, and Consumer Protection Act was enacted into law in 2018 and was designed to ease certain restrictions imposed by the Dodd-Frank Act. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted into law on March 27, 2020 in response to the COVID-19 pandemic.

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 minimum 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, 2020, 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 revised 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. Under the current 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 of 2.50% of total risk weighted assets.

The capital to risk-adjusted assets requirements for minimum capital plus the applicable buffer, and the requirement to be "well capitalized," are as follows:

| | Minimum Capital Plus Buffer | Well Capitalized |
|---|---|---|
| Common equity tier 1 capital ratio | 7.00 % | 6.50 % |
| Tier 1 capital ratio | 8.50 % | 8.00 % |
| Total capital ratio | 10.50 % | 10.00 % |

In addition, see the discussion of the community bank leverage ratio under the Economic Growth, Regulatory Relief, and Consumer Protection Act below.

**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 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 includes 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 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 eliminated 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.

In September 2019, as directed pursuant to the Act, the federal bank regulatory agencies issued final rules for a community bank leverage ratio ("CBLR") for certain community banking organizations, which was available to use in call reports filed for the period beginning January 1, 2020 or April 1, 2020 pursuant to subsequent final rules adopted in October 2019. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. Under the final rules, a bank or holding company is eligible to elect the CBLR framework if the institution has less than $10 billion in total consolidated assets, meets certain risk-based qualifying criteria and has a CBLR greater than 9%. The CARES Act reduced the minimum ratio to 8% beginning in the 2nd quarter of 2020 through December 31, 2020, increasing to 8.5% for 2021 and returning to 9% beginning January 1, 2022. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate the risk-based and leverage capital requirements under the Basel III rules. The Company has not opted into the CBLR framework for the Bank at this time.

In July 2019, the federal bank regulatory agencies issued final rules pursuant to the Act simplifying several requirements in the agencies' regulatory capital rules for banks generally less than $250 billion in assets. As directed pursuant to the Act, the federal bank regulatory agencies issued final rules increasing the asset thresholds for management interlocks between depository institutions, which became effective in October 2019. Also, in October 2019, the federal bank regulatory agencies issued final rules to, among other things, increase the threshold for appraisals in a residential real estate transaction from $250,000 to $400,000 and make conforming changes to add to the list of exempt transactions those transactions secured by residential property in rural areas that have been exempted from the agencies' appraisal requirements pursuant to the Act.

**CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT**

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted into law on March 27, 2020. Federal, state, and local governments have adopted various statutes, rules, regulations, orders, and guidelines in order to address the COVID-19 pandemic and the adverse economic effects of this pandemic on individuals, families, businesses, and governments. Financial institutions, including the Company, are affected by many of these measures, including measures that are broadly applicable to businesses operating in the communities where the Company does business. These measures include "stay-at-home orders" that allow only essential businesses to operate. Financial services firms are generally regarded as "essential businesses" under these orders, but financial services firms, like other essential businesses, are required to operate in a manner that seeks to protect the health and safety of their customers and employees.

In addition, the federal banking agencies along with state bank regulators issued an interagency statement on March 22, 2020, addressing loan modifications that are made by financial institutions for borrowers affected by the COVID-19 crisis. The agencies stated that short-term loan modifications made on a good faith basis in response to COVID-19 for borrowers who were current prior to any relief do not need to be categorized as TDRs and that financial institutions are not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral.

The CARES Act contains a number of provisions that affect banking organizations. The CARES Act provides funding for various programs under which the federal government will lend to, guarantee loans to, or make investments in, businesses. Banking organizations are expected to play a role in some of these programs, and when they do so, they will be subject to certain requirements. One of these programs is the Paycheck Protection Program (PPP), a program administered by the Small Business Administration (the SBA) to provide loans to small businesses for payroll and other basic expenses during the COVID-19 crisis. The loans can be made by SBA-certified lenders and are 100% guaranteed by the SBA. The loans are eligible to be forgiven if certain conditions are satisfied, in which event the SBA will make payment to the lender for the forgiven amounts. The Bank has participated in the PPP as a lender.

The CARES Act also authorized temporary changes to certain provisions applicable to banking organizations. Among other changes, Section 4013 of the CARES Act gives financial institutions the right to elect to suspend GAAP principles and regulatory determinations for loan modifications relating to COVID-19 that would otherwise be categorized as TDRs from March 1, 2020, through the earlier of December 31, 2020, or 60 days after the COVID-19 national emergency ends. On April 7, 2020, the federal banking agencies, in consultation with state bank regulators, issued an interagency statement clarifying the interaction between (i) their earlier statement discussing whether loan modications relating to COVD-19 need to be treated as TDRs and (ii) the CARES Act provision on this subject. In this interagency statement, the agencies also said that when exercising supervisory and enforcement responsibility with respect to consumer protection requirements, they will take into account the unique circumstances impacting borrowers and institutions resulting from the COVID-19 emergency and that they do not expect to take a consumer compliance public enforcement action against an institution, provided that the circumstances were related to this emergency and the institution made good faith efforts to support borrowers and comply with the consumer protection requirements and addressed any needed corrective action. The suspension of TDR identification and accounting triggered by the effects of the COVID-19 pandemic was extended by the Consolidated Appropriations Act, 2021, signed into law on December 27, 2020. The period established by Section 4013 of the CARES Act was extended to the earlier of January 1, 2022 or 60 days after the date on which the national COVID-19 emergency terminates.

The Federal Reserve has established several lending facilities that are intended to support the flow of credit to households, businesses, and governments. One of these facilities is the Paycheck Protection Program Liquidity Facility (PPPLF) which was set up to allow the Federal Reserve Banks to extend credit to financial institutions that originate PPP loans, taking the loans as collateral at face value. On April 9, 2020, the federal banking agencies issued an interim final rule to allow banking organizations to neutralize the effect of PPP loans financed under the PPPLF on the leverage capital ratios of these organizations. Also, in accordance with the CARES Act, a PPP loan will be assigned a risk weight of zero percent under the federal banking agencies’ risk-based capital rules. The Federal Reserve had also announced the creation of main street lending facilities to purchase loan participations, under specified conditions, from banks lending to small to medium U.S. businesses. The Company has not participated in any of these facilities.

Additionally, on March 15, 2020, the Federal Reserve reduced the target range for the federal funds rate to 0% to 0.25% and announced that it would increase its holdings of U.S. Treasury securities and agency mortgage-backed securities and begin purchasing agency commercial mortgage-backed securities. The Federal Reserve has also encouraged depository institutions to borrow from the discount window and has lowered the primary credit rate for such borrowing by 150 basis points while extending the term of such loans up to 90 days. Reserve requirements have been reduced to zero as of March 26, 2020.

## 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*.

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 locations which are owned. Seven additional locations are leased with terms expiring from May 31, 2022 to June 30, 2033.

## 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 February 28, 2021, the Company had 2,724 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 |
|---|---|---|---|
| | HIGH | LOW | DECLARED |
| **Year ended December 31, 2020:** | | | |
| **First Quarter** | **$ 4.24** | **$ 2.39** | **$ 0.025** |
| **Second Quarter** | **3.21** | **2.51** | **0.025** |
| **Third Quarter** | **3.06** | **2.66** | **0.025** |
| **Fourth Quarter** | **3.40** | **2.69** | **0.025** |
| Year ended December 31, 2019: | | | |
| First Quarter | $ 4.24 | $ 3.97 | $ 0.020 |
| Second Quarter | 4.30 | 4.03 | 0.025 |
| Third Quarter | 4.24 | 4.08 | 0.025 |
| Fourth Quarter | 4.30 | 4.11 | 0.025 |

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 April 16, 2019, the Company announced a common stock repurchase program that called for AmeriServ Financial, Inc. to purchase up to 3%, or approximately 526,000 shares, of the Company's outstanding common stock over a 12-month period. As of the end of the first quarter of 2020, all shares authorized under this plan had been repurchased. During 2020, the Company was able to repurchase a total of 35,962 shares at an average price of $4.20 under this repurchase program.

## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

### SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA

| | AT OR FOR THE YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS) | | | | |
| SUMMARY OF INCOME STATEMENT DATA: | | | | | |
| Total interest income | **$ 46,882** | $ 49,767 | $ 47,094 | $ 44,356 | $ 41,869 |
| Total interest expense | **10,515** | 14,325 | 11,600 | 8,795 | 7,735 |
| Net interest income | **36,367** | 35,442 | 35,494 | 35,561 | 34,134 |
| Provision (credit) for loan losses | **2,375** | 800 | (600) | 800 | 3,950 |
| Net interest income after provision (credit) for loan losses | **33,992** | 34,642 | 36,094 | 34,761 | 30,184 |
| Total non-interest income | **16,275** | 14,773 | 14,224 | 14,645 | 14,638 |
| Total non-interest expense | **44,455** | 41,815 | 40,873 | 40,726 | 41,615 |
| Income before income taxes | **5,812** | 7,600 | 9,445 | 8,680 | 3,207 |
| Provision for income taxes | **1,214** | 1,572 | 1,677 | 5,387 | 897 |
| Net income | **$ 4,598** | $ 6,028 | $ 7,768 | $ 3,293 | $ 2,310 |
| Net income available to common shareholders | **$ 4,598** | $ 6,028 | $ 7,768 | $ 3,293 | $ 2,295 |
| PER COMMON SHARE DATA: | | | | | |
| Basic earnings per share | **$ 0.27** | $ 0.35 | $ 0.43 | $ 0.18 | $ 0.12 |
| Diluted earnings per share | **0.27** | 0.35 | 0.43 | 0.18 | 0.12 |
| Cash dividends declared | **0.100** | 0.095 | 0.075 | 0.060 | 0.050 |
| Book value at period end | **6.12** | 5.78 | 5.56 | 5.25 | 5.05 |
| BALANCE SHEET AND OTHER DATA: | | | | | |
| Total assets | **$ 1,279,713** | $ 1,171,184 | $ 1,160,680 | $ 1,167,655 | $ 1,153,780 |
| Loans and loans held for sale, net of unearned income | **978,345** | 887,574 | 863,129 | 892,758 | 886,858 |
| Allowance for loan losses | **11,345** | 9,279 | 8,671 | 10,214 | 9,932 |
| Investment securities available for sale | **144,165** | 141,749 | 146,731 | 129,138 | 127,077 |
| Investment securities held to maturity | **44,222** | 39,936 | 40,760 | 38,752 | 30,665 |
| Deposits | **1,054,920** | 960,513 | 949,171 | 947,945 | 967,786 |
| Total borrowed funds | **114,080** | 100,574 | 108,177 | 115,701 | 78,645 |
| Stockholders' equity | **104,399** | 98,614 | 97,977 | 95,102 | 95,395 |
| Full-time equivalent employees | **299** | 309 | 303 | 302 | 305 |
| SELECTED FINANCIAL RATIOS: | | | | | |
| Return on average assets | **0.37 %** | 0.51 % | 0.67 % | 0.28 % | 0.20 % |
| Return on average total equity | **4.52** | 6.02 | 8.08 | 3.42 | 2.30 |
| Loans and loans held for sale, net of unearned income, as a percent of deposits, at period end | **92.74** | 92.41 | 90.94 | 94.18 | 91.64 |
| Ratio of average total equity to average assets | **8.21** | 8.52 | 8.28 | 8.24 | 8.79 |
| Common stock cash dividends as a percent of net income available to common shareholders | **37.09** | 27.36 | 17.31 | 33.80 | 41.18 |
| Interest rate spread | **3.01** | 3.05 | 3.08 | 3.14 | 3.08 |
| Net interest margin | **3.19** | 3.29 | 3.31 | 3.32 | 3.26 |
| Allowance for loan losses as a percentage of loans, net of unearned income, at period end | **1.16** | 1.05 | 1.00 | 1.14 | 1.12 |
| Non-performing assets as a percentage of loans and other real estate owned, at period end | **0.34** | 0.26 | 0.16 | 0.34 | 0.18 |
| Net charge-offs as a percentage of average loans | **0.03** | 0.02 | 0.11 | 0.06 | 0.44 |

## 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, 2020, 2019, AND 2018

### 2020 SUMMARY OVERVIEW:

AmeriServ Financial, Inc.’s fourth quarter 2020 net income was $692,000, or $0.04 per diluted common share. This represents an increase of $23,000, or 3.4%, from the fourth quarter of 2019 when net income was $669,000, or also $0.04 per diluted common share. For the year ended December 31, 2020, net income was $4,598,000 or $0.27 per diluted share. This performance represented a decline of 22.9% from the full year of 2019, when net income was $6,028,000, or $0.35 per common share.

Admittedly, this has been, and in many ways continues to be, a difficult time for many of us, both in this nation and globally. But we believe the fundamental strength and resolve of the average citizen of these United States has emerged through the many challenges. The national lockdown was a shock to the fiber of our society. However, the limited re-openings that began in mid-summer were important. By the beginning of the fourth quarter, those commercial enterprises who re-opened began to revive commercial loan demand. AmeriServ experienced a growth in traditional loan products of nearly $39 million in net loans outstanding in the fourth quarter. This quickening pace we regard as a positive sign that recovery, while slow, has begun. We have also noticed the changed behavior of the American consumer as the pandemic event spread across all fifty states. All levels of government embarked on economic stimulus programs, introducing growth in the money supply for both businesses and consumers. But much of that stimulus funding went into debt reduction and even more to increase the level of deposits in banks across the U.S. Americans were unsure about the future and almost overnight, the nation of spenders became a nation of savers. AmeriServ alone found that from December 31, 2019 to December 31, 2020, its total deposits increased by $94 million, or approximately 10%, a record high for AmeriServ. The banking system was more liquid than it has been in sometime as businesses and consumers alike were concerned about an increased level of risk.

Other positive changes began occurring. The Federal Reserve reduced interest rates and ignited a boom in home buying and residential mortgages. In 2020, AmeriServ Financial Bank closed $142 million of residential mortgage loans as compared with $60 million in the 12 months of 2019. This flood of new stimulus funds also found its way into equity markets permitting AmeriServ’s Wealth Management complex to increase the market value of its clients’ funds under management or administration, by $243 million or 11%. This total closing at $2.48 billion, was an historic record for the Wealth Management complex at AmeriServ.

These positive developments were encouraging but we continued to be alert and active in the interests of those businesses or consumers who were struggling. Our commercial loan group actively supported certain borrowers in certain industries who remained closed or restricted. AmeriServ also participated in the Federal Payroll Protection Loan Program (PPP) in 2020 making 477 loans totaling $68.7 million to small businesses throughout the region. AmeriServ additionally has modified the payment terms for 19 commercial borrowers with loans totaling $47 million in order to assist these borrowers struggling with the pandemic event and conditions beyond their control. We monitor these borrowers continuously, along with guidance from the Federal Reserve, our primary regulator. Just as any knowledgeable team of money lenders would do, we have continued to build our allowance for loan losses to protect this Company. The PPP loans are relatively riskless because of a governmental guarantee. AmeriServ is monitoring the payment deferral loans and reporting in detail to the full Board of Directors monthly. Our goal is to provide reasonable assistance to all of our struggling customers, but also to protect the safety and soundness of this important regional franchise.

This Company continues to exceed all regulatory capital requirements. We continue to service the payment requirements of our Trust Preferred shares and our subordinated debt issue. Our quarterly common stock dividend remains in effect, but we have ceased common stock repurchases based upon guidance provided by regulatory authorities. Additionally, we are preserving capital to support the balance sheet growth that we have experienced. Daily, we are faced with the task of balancing risk with reward. However, the risk implicit today is not primarily economic risk but rather the total impact of the pandemic, which created unplanned and new economic risks. In such times, we naturally fall back into the time tested financial norms of the community bank business model. This is what we believe in and is exactly what good times and bad times have trained us to do. We are encouraged by the recent positive developments which we reviewed herein. We do not believe the difficulties are over. The pandemic is still with us every day. Therefore, this Board and this Management Team must continue to be vigilant and alert. There are still too many unknowns to be explored and mitigated.

**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, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS) | | |
| Net income | **$ 4,598** | $ 6,028 | $ 7,768 |
| Diluted earnings per share | **0.27** | 0.35 | 0.43 |
| Return on average assets | **0.37 %** | 0.51 % | 0.67 % |
| Return on average equity | **4.52** | 6.02 | 8.08 |

The Company reported net income of $4,598,000, or $0.27 per diluted common share, in 2020. This represents a 22.9% decrease in earnings per share from the full year of 2019 when net income totaled $6,028,000, or $0.35 per diluted common share. The Company's return on average equity declined to 4.52% for the 2020 year from 6.02% in 2019. The resiliency of our community bank customer-focused business model was evident in 2020 as the Company dealt with the many unexpected challenges resulting from the COVID-19 pandemic. The Company experienced record levels of both loans and deposits as we served as an important financial resource to small businesses and consumers in our marketplace. Continuing our conservative risk management posture, we prudently built our allowance for loan losses to address increased credit risk in certain sectors of our loan portfolio which was a primary factor causing the decline in earnings between years. The good diversification of the Company's revenue was evident as 31% of our total revenue in 2020 came from non-interest income sources which included record contributions from our strong wealth management business and active residential mortgage operation. Finally, the Company increased tangible book value(1) per share by 6.7% during 2020.

The Company reported net income of $6.0 million, or $0.35 per diluted common share, for 2019. This represented an 18.6% decrease in earnings per share from 2018 when net income totaled $7.8 million, or $0.43 per diluted common share. The decline in 2019 earnings was caused by an increased loan loss provision primarily related to one large commercial loan and an impairment charge recognized on a Community Reinvestment Act (CRA) related investment.

The Company reported net income of $7.8 million, or $0.43 per diluted common share, for 2018. This represented an 139% increase in earnings per share from 2017 where net income totaled $3.3 million, or $0.18 per diluted common share. The strong growth in earnings resulted from a favorable combination of lower income tax expense, outstanding asset quality, and well controlled non-interest expense.

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(1) See reconciliation of non-GAAP tangible book value later in this MD&A.

**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, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | (IN THOUSANDS, EXCEPT RATIOS) | | |
| Interest income | **$ 46,882** | $ 49,767 | $ 47,094 |
| Interest expense | **10,515** | 14,325 | 11,600 |
| Net interest income | **36,367** | 35,442 | 35,494 |
| Net interest margin | **3.19 %** | 3.29 % | 3.31 % |

**2020 NET INTEREST PERFORMANCE OVERVIEW.** The Company's net interest income for the full year of 2020 increased by $925,000, or 2.6%, when compared to the full year of 2019. The Company's net interest margin was

3.19% for the full year of 2020 representing a ten basis point decline from the full year of 2019. Our net interest margin performance was challenged throughout 2020 as a result of the low interest rate environment and the economic uncertainty and volatility caused by the COVID-19 pandemic. As COVID-19 cases surged, government officials recommended the implementation of certain safety measures and restrictions on businesses and individuals. As a result, AmeriServ had to close its lobbies to customer traffic two separate times during the year for an extended period of time, but continued to service customers through drive up access. In spite of these pandemic related challenges, our balance sheet experienced robust growth in 2020 which caused the increase in net interest income despite the decline in the net interest margin due to pressures from the low interest rate environment. Total average earning assets increased by $62.2 million, or 5.8%, in 2020. Specifically, total loans averaged $923 million in 2020 which is $48.1 million, or 5.5%, higher than the 2019 full year average. Short-term investments averaged $29 million in 2020 which is $18.3 million, or 173.2%, higher than the 2019 full year average. Slightly offsetting the higher level of average loans and short-term investments was a decrease in average investment securities. Total investment securities averaged $188 million in 2020 which is $6.2 million, or 3.2%, lower than the 2019 full year average.

Total deposits, including non-interest bearing demand deposits, averaged $1.035 billion for the full year of 2020, which was $55.2 million, or 5.6%, higher than the $980 million average for the full year of 2019. The 2020 full year average of short-term and FHLB borrowed funds was $69 million, which represented an increase of $5.6 million, or 8.8%. Overall, the Company's loan to deposit ratio averaged 90.9% in the fourth quarter of 2020 which we believe indicates that the Company has ample capacity to continue to grow its loan portfolio and is well positioned to continue assisting our customers and the community given the impact that the COVID-19 pandemic is having on the economy.

**COMPONENT CHANGES IN NET INTEREST INCOME: 2020 VERSUS 2019.** Regarding the separate components of net interest income, the Company's total interest income in 2020 decreased by $2.9 million, or 5.8%, when compared to 2019. Total average earning assets increased by $62.2 million, or 5.8%, in 2020 as the increased level of average total loans and short term investments more than offset the lower level of average total investment securities. Despite the growth in average earning assets, interest income was unfavorably impacted by a decrease in the earning asset yield which declined by 50 basis points from 4.61% to 4.11%. All categories within the earning asset base demonstrated an interest income decrease between years. The average total loan portfolio yield decreased by 51 basis points from 4.91% to 4.40% in 2020 while the average yield on total investment securities decreased by 16 basis points from 3.36% to 3.20%.

Total investment securities averaged $188 million for the full year of 2020 which is $6.2 million, or 3.2%, lower than the $194 million average in 2019. The Company was selective in 2020 when purchasing the more typical types of securities that have been purchased historically as the market was less favorable for purchases, offering a lower return given the differences in the position and shape of the U.S. Treasury yield curve from last year. To somewhat offset the unfavorable market for the more traditional types of purchases, the Company has been active since March of 2020 purchasing corporate securities, particularly subordinated debt issued by other financial institutions along with taxable municipal securities. Subordinated debt offers higher yields than the typical types of securities in which we invest and is particularly attractive given the current low interest rate environment and modestly positive slope of the yield curve. Management believes it to be acceptable to increase our investments in bank subordinated debt in a gradual and diversified manner, given the heavily regulated nature of the industry combined with our intensive due diligence process and adherence to our internal guidelines for these types of investments.

Total loans reached a new record level and averaged $923 million for the full year of 2020 which is $48.1 million, or 5.5%, higher than the 2019 full year average. The growth between years was primarily related to AmeriServ's early participation in the Small Business Administration's (SBA) 100% gurarenteed Paycheck Protection Program (PPP) which remained on the balance sheet from the time of their inception through year end. During 2020, the Company processed 477 PPP loans totaling $68.7 million to assist small businesses and our community in this difficult economy. Also, the Company recorded a total of $1.9 million of processing fee income and interest income from PPP lending activity. The remaining portion of PPP processing fees totals approximately $755,000 and is being amortized into income over the time period that the loans remain on our balance sheet or until the PPP loan is forgiven at which time the remaining fee will be recognized immediately as income. Note that the level of PPP loans did decrease by approximately $10 million during the fourth quarter as we work through the forgiveness process with our customers. In late December 2020, the Federal Government passed a new $900 billion pandemic relief bill which includes $284.5 billion for the re-opening of the SBA Paycheck Protection Program. The Company is participating in this new 2021 program to continue to provide assistance to our business customers. Normal commercial lending production improved during the final four months of the year with commercial loan pipelines also improving to pre-COVID levels. Overall, on an end of period basis and excluding total PPP loans, the total loan portfolio grew by approximately $39.1 million since September 30, 2020. Residential mortgage loan production continued to be exceptionally strong throughout the year and reached a record level given the lower interest rate environment. For the full year of 2020, residential mortgage loan production totaled $142 million and was 139% higher than the production level of $60 million achieved for the full year of 2019. Even though total average loans increased compared to last year and loan interest income was enhanced by the PPP revenue, loan interest and fee income declined by $2.3 million, or 5.4%, for the full year. The lower loan interest income reflects the challenges that this record low interest rate environment has created. New loans are being originated at lower yields and certain loans tied to LIBOR or the prime rate reprice downward as both of these indices have moved down with the Federal Reserve's decision to decrease the target federal funds interest rate by a total of 225 basis points since June of 2019.

Our liquidity position continues to be strong due to the significant influx of deposits that resulted from the government stimulus programs and as customers continue to be cautious and are demonstrating reduced spending activity due to the economic uncertainty. As a result, short-term investments averaged $29 million for the full year of 2020 which is $18.3 million, or 173.2%, higher than the 2019 full year average. The challenge of profitably deploying this excess liquidity resulted in management initially investing in high quality commercial paper given their short maturities and higher rates of return. However, as 2020 progressed, the yields on commercial paper experienced a steady decline, once again creating pressure to find a suitable return for our excess liquidity. This pressure was eased during the fourth quarter given the loan growth that occurred which resulted in short term investment balances returning to a more normal.

Total interest expense for the twelve months of 2020 decreased by $3.8 million, or 26.6%, when compared to 2019, due to lower levels of both deposit and borrowing interest expense. Deposit interest expense in the full year of 2020 was lower by $3.6 million, or 31.8%. Total average deposits reached a record level, averaging $1.035 billion for the year, which is $55.2 million, or 5.6%, higher than the 2019 full year average reflecting the benefit of government stimulus programs and reduced consumer spending in 2020. In addition, the Company's loyal core deposit base continues to be a source of strength for the Company during periods of market volatility. Management continued to effectively execute several deposit product pricing decreases given the low interest rate environment and the downward pressure that the low interest rates are having on the net interest margin. As a result, the Company experienced deposit cost relief. Overall, total deposit cost, including demand deposits, averaged 0.74% in 2020 compared to 1.14% in 2019, or a meaningful decrease of 40 basis points.

The Company experienced a $255,000, or 8.1%, decrease in the interest cost of borrowings in the full year of 2020 when compared to the full year of 2019. The decline is a result of the Federal Reserve's actions to decrease interest rates and the impact that these rate decreases have on the cost of overnight borrowed funds and the replacement of matured FHLB term advances. The total 2020 full year average term advance borrowings balance increased by approximately $11.7 million, or 22.4%, when compared to the full year of 2019 as the Company took advantage of the lower yield curve to prudently extend borrowings. The rate on certain FHLB term advances is lower than the rate on overnight borrowings. As a result, the combined growth of average FHLB term advances and total average deposits resulted in less reliance on overnight borrowed funds, which decreased between years by $6.1 million. Overall, the 2020 full year average of total short-term and FHLB borrowed funds was $69.0 million, which represents an increase of $5.6 million, or 8.8%, from 2019.

**2019 NET INTEREST PERFORMANCE OVERVIEW.** The Company's net interest income for the full year of 2019 decreased by $52,000, or 0.1%, when compared to the full year of 2018. The Company's net interest margin was 3.29% for the full year of 2019 which represented a two basis point decline from the full year of 2018. Our net interest margin performance was challenged throughout 2019 as the U.S. Treasury Yield Curve shifted downward, flattened and became inverted in certain segments, at various times during the year. The lower interest rate environment along with a lower full year average total loan portfolio balance resulted in the modest year over year unfavorable comparison for net interest income. Positively impacting net interest income during 2019 was a favorable shift experienced in the mix of total average interest bearing liabilities as the amount of total interest bearing deposits increased and resulted in less reliance on higher cost borrowings to fund interest earning assets. Total average earning assets increased by $6.7 million, or 0.6%, in 2019. Specifically, total investment securities averaged $194 million in 2019 which is $9.5 million, or 5.1%, higher than the 2018 full year average. Total loans averaged $875 million in 2019 which is $6.6 million, or 0.7%, lower than the 2018 full year average.

Total average interest bearing liabilities increased by $31.5 million, or 3.6%, as a lower level of total average FHLB borrowings was more than offset by a higher level of interest bearing deposits. Total interest bearing deposits averaged $828 million in 2019 and increased when compared to the 2018 average by $42.7 million, or 5.4%. The 2019 full year average of FHLB borrowed funds was $63.4 million, which represented a decrease of $14.7 million, or 18.8%. Total deposits, including non-interest bearing demand deposits, averaged $980 million for the full year of 2019, which was $19.9 million, or 2.1%, higher than the $960 million average for the full year of 2018. Overall, the Company's loan to deposit ratio averaged 89.1% in the fourth quarter of 2019 which we believe indicated that the Company had ample capacity to grow its loan portfolio.

**COMPONENT CHANGES IN NET INTEREST INCOME: 2019 VERSUS 2018.** Regarding the separate components of net interest income, the Company's total interest income in 2019 increased by $2.7 million, or 5.7%, when compared to 2018. Total average earning assets increased by $6.7 million, or 0.6%, in 2019 as a lower level of total average loans were more than offset by an increased level of total investment securities. Also contributing to the higher level of interest income was the earning asset yield increasing by 22 basis points from 4.39% to 4.61%. All categories within the earning asset base demonstrated an interest income increase between years. The average total loan portfolio yield increased by 25 basis points from 4.66% to 4.91% in 2019 while the yield on total investment securities increased by 19 basis points from 3.17% to 3.36%.

Total investment securities averaged $194 million for the full year of 2019 which was $9.5 million, or 5.1%, higher than the $185 million average in 2018. The growth in the investment securities portfolio occurred primarily as the year progressed during 2018 and was the result of management taking advantage of the rising interest rate environment experienced during 2018 which provided an attractive market for additional security purchases. Purchases primarily focused on federal agency mortgage backed securities due to the ongoing cash flow that these securities provide. Also, management continued its portfolio diversification strategy through purchases of high quality corporate and taxable municipal securities. Investment security purchase activity slowed significantly during 2019 as the interest rate market was less favorable.

Total loans averaged $875 million for the full year of 2019 which was $6.6 million, or 0.7%, lower than the 2018 full year average. Overall, total loan originations in 2019 exceeded the prior year's level by $50.4 million and also exceeded another strong level of loan payoffs during the year. However, because of the high level of loan payoffs received late in 2018, the full year average comparison between years was unfavorable. Loan pipelines remained strong throughout 2019. Loan interest income increased by $1.9 million, or 4.6%, between the full year of 2019 and the full year of 2018. The higher loan interest income primarily reflected the Federal Reserve increasing the federal funds interest rate in 2018. This resulted in new loans originating at higher yields throughout 2018 and during the first half of 2019 and also caused the upward repricing of certain loans tied to LIBOR or the prime rate as both of these indices moved up with the federal funds rate increases in 2018. Certain floating rate loans, however, did reprice down in the second half of 2019 as the Federal Reserve reduced the federal funds rate by a total of 75 basis points in the second half of 2019. Also, included in the favorable year over year loan interest income increase was a higher level of loan fee income by $325,000, due primarily to prepayment fees collected on certain early loan payoffs.

Total interest expense for the twelve months of 2019 increased by $2.7 million, or 23.5%, when compared to 2018, due to higher levels of deposit interest expense which more than offset a slight decrease in borrowings interest expense. Deposit interest expense in 2019 was higher by $2.7 million, or 32.5%, for the full the year which reflected the higher level of total average interest bearing deposits and certain indexed money market accounts repricing upward due to the impact of the Federal Reserve increasing interest rates during 2018. The full year average cost of total interest bearing deposits increased between years by 28 basis points from 1.07% in 2018 to 1.35% in 2019. Even though total average interest bearing deposit cost increased for the full year of 2019, the Company did experience deposit pricing relief during the third and fourth quarters of 2019 because of the Federal Reserve easing interest rates late in July, September and October of 2019. Specifically, the Company's cost of interest bearing deposits declined by 10 basis points between the third and fourth quarters of 2019. However, the Company continued to experience competitive market pressure to retain existing deposit customers and attract new customer deposits. Customer product preference changed as well in 2019 resulting in movement of funds from non-interest bearing demand deposit accounts and lower yielding money market accounts into higher yielding certificates of deposits. Overall, total deposits grew during the year and averaged $980 million for the full year of 2019, which was $19.9 million, or 2.1%, higher than the 2018 full year average.

The Company experienced a $21,000, or 0.7%, decrease in the interest cost of borrowings for the full year of 2019. The decline was a result of the lower total average borrowings balance between years combined with the impact from the Federal Reserve's action to decrease interest rates three times in 2019 and the immediate impact that those rate decreases had on the cost of overnight borrowed funds and the replacement of matured FHLB term advances. The total full year average term advance borrowings balance increased by approximately $7.3 million, or 16.3%, when compared to the full year 2018. This increase was due to the inversion demonstrated by the U.S. Treasury Yield Curve in 2019 and resulted in certain term advances costing less than overnight borrowed funds. Overall, the 2019 full year average of FHLB borrowed funds was $63.4 million, which represented a decrease of $14.7 million, or 18.8%, due to the increase in total average deposits.

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 this table, 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% was used to compute tax-equivalent interest income and yields (non-GAAP). The tax equivalent adjustments to interest income on loans and municipal securities for the years ended December 31, 2020, 2019, and 2018 was 24,000, 24,000, and 21,000, respectively, which is reconciled to the corresponding GAAP measure at the bottom of the table. Differences between the net interest spread and margin from a GAAP basis to a tax-equivalent basis were not material.

| | YEAR ENDED DECEMBER 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | | 2018 | | |
| | 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 | **$ 923,269** | **$ 40,652** | **4.40 %** | $ 875,198 | $ 42,957 | 4.91 % | $ 881,767 | $ 41,049 | 4.66 % |
| Deposits with banks | **3,137** | **15** | **0.46** | 1,018 | 24 | 2.32 | 1,023 | 20 | 1.90 |
| Short-term investments | **28,831** | **231** | **0.80** | 10,552 | 293 | 2.77 | 6,725 | 201 | 3.00 |
| Investment securities: | | | | | | | | | |
| Available for sale | **145,788** | **4,591** | **3.15** | 153,458 | 5,090 | 3.32 | 145,162 | 4,527 | 3.12 |
| Held to maturity | **41,994** | **1,417** | **3.37** | 40,553 | 1,427 | 3.52 | 39,388 | 1,318 | 3.35 |
| Total investment securities | **187,782** | **6,008** | **3.20** | 194,011 | 6,517 | 3.36 | 184,550 | 5,845 | 3.17 |
| TOTAL INTEREST EARNING ASSETS/ INTEREST INCOME | **1,143,019** | **46,906** | **4.11** | 1,080,779 | 49,791 | 4.61 | 1,074,065 | 47,115 | 4.39 |
| Non-interest earning assets: | | | | | | | | | |
| Cash and due from banks | **18,091** | | | 20,239 | | | 23,067 | | |
| Premises and equipment | **18,439** | | | 17,928 | | | 12,480 | | |
| Other assets | **70,867** | | | 64,083 | | | 62,040 | | |
| Allowance for loan losses | **(9,732)** | | | (8,404) | | | (9,866) | | |
| TOTAL ASSETS | **$ 1,240,684** | | | $ 1,174,625 | | | $ 1,161,786 | | |
| Interest bearing liabilities: | | | | | | | | | |
| Interest bearing deposits: | | | | | | | | | |
| Interest bearing demand | **$ 175,088** | **$ 483** | **0.28 %** | $ 170,326 | $ 1,595 | 0.94 % | $ 138,572 | $ 1,134 | 0.82 % |
| Savings | **104,442** | **148** | **0.14** | 96,783 | 162 | 0.17 | 98,035 | 163 | 0.17 |
| Money market | **234,771** | **1,031** | **0.44** | 234,387 | 2,525 | 1.08 | 249,618 | 2,183 | 0.87 |
| Other time | **345,228** | **5,972** | **1.73** | 326,867 | 6,907 | 2.11 | 299,391 | 4,963 | 1.66 |
| Total interest bearing deposits | **859,529** | **7,634** | **0.89** | 828,363 | 11,189 | 1.35 | 785,616 | 8,443 | 1.07 |
| Federal funds purchased and other short-term borrowings | **4,947** | **29** | **0.58** | 11,088 | 288 | 2.59 | 33,126 | 720 | 2.17 |
| Advances from Federal Home Loan Bank | **64,046** | **1,099** | **1.72** | 52,309 | 1,090 | 2.09 | 44,974 | 797 | 1.77 |
| Guaranteed junior subordinated deferrable interest debentures | **13,085** | **1,121** | **8.57** | 13,085 | 1,121 | 8.57 | 13,085 | 1,120 | 8.57 |
| Subordinated debt | **7,650** | **520** | **6.80** | 7,650 | 520 | 6.80 | 7,650 | 520 | 6.80 |
| Lease liabilities | **3,949** | **112** | **2.84** | 3,444 | 117 | 3.40 | — | — | — |
| TOTAL INTEREST BEARING LIABILITIES/INTEREST EXPENSE | **953,206** | **10,515** | **1.10** | 915,939 | 14,325 | 1.56 | 884,451 | 11,600 | 1.31 |
| Non-interest bearing liabilities: | | | | | | | | | |
| Demand deposits | **175,336** | | | 151,292 | | | 174,108 | | |
| Other liabilities | **10,340** | | | 7,271 | | | 7,077 | | |
| Stockholders' equity | **101,802** | | | 100,123 | | | 96,150 | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | **$ 1,240,684** | | | $ 1,174,625 | | | $ 1,161,786 | | |
| Interest rate spread | | | **3.01** | | | 3.05 | | | 3.08 |
| Net interest income/net interest margin | | **36,391** | **3.19 %** | | 35,466 | 3.29 % | | 35,515 | 3.31 % |
| Tax-equivalent adjustment | | **(24)** | | | (24) | | | (21) | |
| Net interest income | | **$ 36,367** | | | $ 35,442 | | | $ 35,494 | |

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.

| | 2020 vs. 2019 INCREASE (DECREASE) DUE TO CHANGE IN: | | | 2019 vs. 2018 INCREASE (DECREASE) DUE TO CHANGE IN: | | |
|---|---|---|---|---|---|---|
| | AVERAGE VOLUME | RATE | TOTAL | AVERAGE VOLUME | RATE | TOTAL |
| | (IN THOUSANDS) | | | | | |
| INTEREST EARNED ON: | | | | | | |
| Loans, net of unearned income | **$ 2,587** | **$ (4,892)** | **$ (2,305)** | $ (308) | $ 2,216 | $ 1,908 |
| Deposits with banks | **(15)** | **6** | **(9)** | — | 4 | 4 |
| Short-term investments | **(105)** | **43** | **(62)** | 106 | (14) | 92 |
| Investment securities: | | | | | | |
| Available for sale | **(246)** | **(253)** | **(499)** | 265 | 298 | 563 |
| Held to maturity | **50** | **(60)** | **(10)** | 40 | 69 | 109 |
| Total investment securities | **(196)** | **(313)** | **(509)** | 305 | 367 | 672 |
| Total interest income | **2,271** | **(5,156)** | **(2,885)** | 103 | 2,573 | 2,676 |
| INTEREST PAID ON: | | | | | | |
| Interest bearing demand deposits | **46** | **(1,158)** | **(1,112)** | 281 | 180 | 461 |
| Savings deposits | **11** | **(25)** | **(14)** | (1) | — | (1) |
| Money market | **4** | **(1,498)** | **(1,494)** | (116) | 458 | 342 |
| Other time deposits | **424** | **(1,359)** | **(935)** | 492 | 1,452 | 1,944 |
| Federal funds purchased and other short-term borrowings | **(108)** | **(151)** | **(259)** | (609) | 177 | (432) |
| Advances from Federal Home Loan Bank | **43** | **(34)** | **9** | 139 | 154 | 293 |
| Guaranteed junior subordinated deferrable interest debentures | — | **—** | **—** | — | 1 | 1 |
| Lease liabilities | **(6)** | **1** | **(5)** | 117 | — | 117 |
| Total interest expense | **414** | **(4,224)** | **(3,810)** | 303 | 2,422 | 2,725 |
| Change in net interest income | **$ 1,857** | **$ (932)** | **$ 925** | $ (200) | $ 151 | $ (49) |

**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 $1,000,000 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, 2020 | 2019 | 2018 |
|---|---|---|---|
| | (IN THOUSANDS, EXCEPT PERCENTAGES) | | |
| Total accruing loans past due 30 to 89 days | **$ 5,504** | $ 2,956 | $ 4,752 |
| Total non-accrual loans | **2,500** | 1,487 | 1,221 |
| Total non-performing assets including TDRs (1) | **3,331** | 2,339 | 1,378 |
| Loan delinquency as a percentage of total loans, net of unearned income | **0.56 %** | 0.33 % | 0.55 % |
| Non-accrual loans as a percentage of total loans, net of unearned income | **0.26** | 0.17 | 0.14 |
| Non-performing assets as a percentage of total loans, net of unearned income, and other real estate owned | **0.34** | 0.26 | 0.16 |
| Non-performing assets as a percentage of total assets | **0.26** | 0.20 | 0.12 |
| Total classified loans (loans rated substandard or doubtful) (2) | **$ 11,829** | $ 16,338 | $ 4,302 |

(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.

(2) Total includes residential real estate and consumer loans that are considered non-performing.

Overall, the Company continues to maintain good asset quality. 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 well below 1% of total loans. Accruing loan delinquency increased $2.5 million since the prior year-end and now totals $5.5 million. This increase is the result of several commercial and commercial real estate loan borrowers demonstrating delinquency during the fourth quarter of 2020. Slightly offsetting this increase in commercial loan delinquency during the fourth quarter was a decrease in residential mortgage loan delinquency. In addition, the Company experienced an increase in non-accrual loans due, primarily, to higher non-accrual residential mortgage loans which also led to an increase in non-performing assets in 2020. The Company did experience a decrease in classified loans during 2020 due to the upgrade of certain commercial loans from substandard.

In 2020, the Company, as suggested by the Federal Reserve, granted loan payment modifications to customers experiencing difficulty during this tough economic time. Requested modifications primarily consist of the deferral of principal and/or interest payments for a period of three to six months and maturity date extensions. Initially, the balance of loan modifications related to COVID-19 that were granted to our customers totaled $200 million. At December 31, 2020, loans totaling approximately $49.1 million, or 5.3% of total loans, were on a payment modification plan, most of which are borrowers who were granted a second loan payment deferral. Included within this total were 19 commercial borrowers with loans totaling $47 million. Management is carefully monitoring asset quality with a particular focus on customers that have requested these payment deferrals. As we reached the end of the initial deferral time periods, deferral extension requests were considered based upon the customer's needs and their impacted industry, borrower and guarantor capacity to service debt as well as issued regulatory guidance. See the disclosures regarding COVID-19 related modifications within the Non-Performing Assets Including Troubled Debt Restructurings footnote.

We also continue to closely monitor the loan portfolio given the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of December 31, 2020, the 25 largest credits represented 22.6% of total loans outstanding, which represents a decrease from December 31, 2019 when it was 24.3%.

**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, | | | | |
|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** |
| | (IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES) | | | | |
| Balance at beginning of year | **$ 9,279** | $ 8,671 | $ 10,214 | $ 9,932 | $ 9,921 |
| Charge-offs: | | | | | |
| Commercial | **(111)** | (9) | (574) | (311) | (3,662) |
| Commercial loans secured by non-owner occupied real estate | **—** | (63) | — | (132) | (82) |
| Real estate – residential mortgage | **(233)** | (98) | (380) | (313) | (208) |
| Consumer | **(143)** | (262) | (251) | (172) | (344) |
| Total charge-offs | **(487)** | (432) | (1,205) | (928) | (4,296) |
| Recoveries: | | | | | |
| Commercial | **4** | 22 | 31 | 27 | 169 |
| Commercial loans secured by non-owner occupied real estate | **44** | 48 | 51 | 56 | 58 |
| Real estate – residential mortgage | **62** | 118 | 119 | 207 | 100 |
| Consumer | **68** | 52 | 61 | 120 | 30 |
| Total recoveries | **178** | 240 | 262 | 410 | 357 |
| Net charge-offs | **(309)** | (192) | (943) | (518) | (3,939) |
| Provision (credit) for loan losses | **2,375** | 800 | (600) | 800 | 3,950 |
| Balance at end of year | **$ 11,345** | $ 9,279 | $ 8,671 | $ 10,214 | $ 9,932 |
| Loans and loans held for sale, net of unearned income: | | | | | |
| Average for the year | **$ 923,269** | $ 875,198 | $ 881,767 | $ 893,849 | $ 887,679 |
| At December 31, | **978,345** | 887,574 | 863,129 | 892,758 | 886,858 |
| As a percent of average loans: | | | | | |
| Net charge-offs | **0.03 %** | 0.02 % | 0.11 % | 0.06 % | 0.44 % |
| Provision (credit) for loan losses | **0.26** | 0.09 | (0.07) | 0.09 | 0.44 |
| Allowance as a percent of each of the following: | | | | | |
| Total loans, net of unearned income | **1.16** | 1.05 | 1.00 | 1.14 | 1.12 |
| Total accruing delinquent loans (past due 30 to 89 days) | **206.12** | 313.90 | 182.47 | 124.90 | 302.99 |
| Total non-accrual loans | **453.80** | 624.01 | 710.16 | 338.66 | 619.59 |
| Total non-performing assets | **340.59** | 396.71 | 629.25 | 336.65 | 611.58 |
| Allowance as a multiple of net charge-offs | **36.72x** | 48.33x | 9.20x | 19.72x | 2.52x |

For 2020, the Company recorded a $2,375,000 provision expense for loan losses compared to an $800,000 provision expense in 2019. The Company continues to build the allowance for loan losses given the overall economic climate and the uncertainty that exists because of the COVID-19 pandemic. The 2020 provision reflects management strengthening certain qualitative factors within the allowance for loan losses calculation and downgrades of loan relationships that are reflective of the industries that have been especially negatively impacted from the pandemic and are demonstrating a slow pace of recovery. Earlier in 2020, several loans from the hotel industry were downgraded. Additionally during the fourth quarter, the downgrade of a hospitality related credit and a large transportation related credit, as well as the loan growth experienced also resulted in the provision increasing. The recovery efforts of many of these borrowers experiencing a downgrade stalled during the fourth quarter due to the rise in COVID cases which caused additional safety measures and restrictions to be put in place on their businesses. While these borrowers will need additional time to recover, we remain encouraged by their efforts to work through the pandemic and signs of improvement in their operations. The Company experienced net loan charge-offs of $309,000, or 0.03% of total loans, in 2020 compared to net loan charge-offs of $192,000, or 0.02% of total loans, in 2019. As a result of the provision expense sharply exceeding net loan charge-offs, the balance in the allowance for loan losses increased by over $2 million in 2020. Nonperforming assets totaled $3.3 million, or 0.34% of total loans, at December 31, 2020. Management is carefully monitoring asset quality with a particular focus on loan customers that have requested a second payment deferral during this difficult economic time. The Asset Quality Task Force is meeting at least monthly to review these particular relationships, receiving input from the business lenders regarding their ongoing discussions with the borrowers. In summary, the allowance for loan losses provided 341% coverage of non-performing assets, and 1.16% of total loans, at December 31, 2020, compared to 397% coverage of non-performing assets, and 1.05% of total loans, at December 31, 2019. Note that the reserve coverage to total loans, excluding PPP loans, is 1.23% (non-GAAP) at December 31, 2020.

Management believes that this non-GAAP measure provides a greater understanding of ongoing operations and enhances comparability of results of operations with prior periods. The Company believes that investors may use this non-GAAP measure to analyze the Company's financial condition without impact of unusual items or events that may obscure trends in the Company's underlying financial condition. This non-GAAP data should be considered in addition to results prepared in accordance with GAAP, and is not a substitute for, or superior to, GAAP results. Limitations associated with non-GAAP financial measures include the risks that persons might disagree as to the appropriateness of items included in these measures and that different companies might calculate these measures differently. The following table sets forth the calculation of the Company's allowance for loan loss reserve coverage to total loans (GAAP) and the reserve coverage to total loans, excluding PPP loans (non-GAAP), at December 31, 2020 (in thousands, except percentages).

| | DECEMBER 31, 2020 |
|---|---|
| Allowance for loan losses | $ **11,345** |
| Total loans, net of unearned income(1) | **978,345** |
| Reserve coverage | **1.16** % |
| *Reserve coverage to total loans, excluding PPP loans:* | |
| Allowance for loan losses | $ **11,345** |
| Total loans, net of unearned income(1) | **978,345** |
| PPP loans | **(58,344)** |
| | **920,001** |
| Non-GAAP reserve coverage | **1.23** % |

(1) Includes loans and loans held for sale

For 2019, the Company recorded an $800,000 provision expense for loan losses compared to a $600,000 provision recovery in 2018 which resulted in a net unfavorable shift of $1.4 million between years. The rating downgrade of a $6.5 million performing commercial loan to substandard as a result of the unexpected death of a borrower caused a $675,000 increase in fourth quarter 2019 provision expense. This rating action was prudent due to the inherent uncertainties associated with a large estate liquidation. The Company experienced net loan charge-offs of only $192,000, or 0.02% of total loans, in 2019 compared to net loan charge-offs of $943,000, or 0.11% of total loans, in 2018. Overall, nonperforming assets totaled $2.3 million, or only 0.26% of total loans, at December 31, 2019. In summary, the allowance for loan losses provided 397% coverage of non-performing assets, and 1.05% of total loans, at December 31, 2019, compared to 629% coverage of non-performing assets, and 1.00% of total loans, at December 31, 2018.

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, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2018 | | 2017 | | 2016 | |
| | 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 | **$ 3,472** | **31.4 %** | $ 3,951 | 30.1 % | $ 3,057 | 29.0 % | $ 4,298 | 28.0 % | $ 4,041 | 29.8 % |
| Commercial loans secured by non-owner occupied real estate | **5,373** | **41.2** | 3,119 | 41.2 | 3,389 | 41.4 | 3,666 | 42.0 | 3,584 | 40.2 |
| Real estate – residential mortgage | **1,292** | **25.7** | 1,159 | 26.6 | 1,235 | 27.6 | 1,102 | 27.8 | 1,169 | 27.8 |
| Consumer | **115** | **1.7** | 126 | 2.1 | 127 | 2.0 | 128 | 2.2 | 151 | 2.2 |
| Allocation to general risk | **1,093** | **—** | 924 | — | 863 | — | 1,020 | — | 987 | — |
| Total | **$ 11,345** | **100.0 %** | $ 9,279 | 100.0 % | $ 8,671 | 100.0 % | $ 10,214 | 100.0 % | $ 9,932 | 100.0 % |

Even though residential real estate mortgage loans comprise 25.7% of the Company's total loan portfolio, only $1.3 million, or 11.4%, 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.

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, 2020 to cover losses within the Company's loan portfolio.

**NON-INTEREST INCOME.** Non-interest income for 2020 totaled $16.3 million, an increase of $1.5 million, or 10.2%, from 2019. Factors contributing to this higher level of non-interest income in 2020 included:

- a $658,000, or 76.1%, increase in income from residential mortgage loan sales into the secondary market due to the strong level of residential mortgage loan production. The higher level of residential mortgage loan production also resulted in mortgage related fees increasing by $257,000, or 85.1%;

- the Company recognized a $500,000 impairment charge on a Community Reinvestment Act (CRA) related investment in 2019 and there was no charge in 2020 since the full investment was written off last year;

- a $482,000, or 5.0%, increase in wealth management fees. In addition to an improved level of fee income from the financial services business unit, the entire wealth management division has been resilient and performed well in spite of the major market value decline that occurred in late March. The market value of wealth management assets recovered and improved from the pre-pandemic valuation, exceeding the March 31, 2020 market value by 25% and also exceeding the market value as of December 31, 2019 by 11%;

- a $368,000, or 29.0%, decrease in service charges on deposit accounts as consumer spending activity-based fees such as deposit service charges, which include overdraft fees, decreased significantly with the shutdown of the economy and has been slow to improve given the pace of the economic recovery;

- a $261,000, or 50.1%, increase in revenue from bank owned life insurance due to the receipt of a $91,000 death claim and a financial floor taking hold which caused increased earnings and a higher rate of return on certain policies; and

- no investment security sale activity occurred in 2020 after the Company recognized a $118,000 net realized gain on investment securities in 2019.

Non-interest income for 2019 totaled $14.8 million, an increase of $549,000, or 3.9%, from 2018. Factors contributing to this higher level of non-interest income in 2019 included:

- the Company recognized a $500,000 impairment charge on other investments related to a Community Reinvestment Act (CRA) investment. The Small Business Administration (SBA) provided formal notice that the managing company of this particular fund was placed into receivership which caused us to write off the full investment;

- net gains on loans held for sale increased by $376,000, or 76.9%, between years due to increased residential mortgage loan sales in the secondary market as the lower interest rate environment in the second half of 2019 resulted in a greater level of residential mortgage loan production. In addition to increased residential mortgage originations, the full year favorable comparison in 2019 was also due to the sale of the guaranteed portion of a SBA guaranteed loan that resulted in a $197,000 gain;

- the Company recognized a net realized gain on investment securities of $118,000 in 2019 compared to a $439,000 net loss in 2018 as the opportunity existed to capture gains on certain securities that demonstrated higher than typical market appreciation in the low interest rate environment. The 2018 net loss resulted from the Company repositioning a portion of the investment portfolio for stronger future returns;

- a $149,000, or 10.5%, decrease in revenue from deposit service charges was due primarily to a reduced level of overdraft fee income;

- a $106,000, or 54.1%, increase in mortgage related fees was due to the higher level of residential mortgage loan production;

- a $103,000, or 4.4%, increase in other income was due to higher letter of credit fees and increased revenue from check supply sales as a result of a favorable vendor contract renegotiation; and

- a $71,000, or 0.7%, increase in wealth management fees was primarily due to the Company benefitting from a continuing increase in market values for assets under management as well as management's effective execution of managing client accounts.

**NON-INTEREST EXPENSE.** Non-interest expense for 2020 totaled $44.5 million, which represents a $2.6 million, or 6.3%, increase from 2019. Factors contributing to the higher non-interest expense in 2020 included:

- a $2.0 million, or 7.7%, increase in salaries & benefits expense was due to increased incentive compensation, total salaries, pension expense, and health care costs. A $645,000, or 57.9%, increase in incentive compensation was primarily due to commissions earned as a result of increased residential mortgage loan production. Total salaries are higher by $625,000, 3.5%, for the year primarily due to separation costs related to the elimination of a management position and annual merit increases. Pension expense increased by $506,000, or 30.4%, as a result of the unfavorable impact that the lower interest rate environment has on the discount rates that are used to revalue the defined benefit pension obligation each year. In addition, there was a $424,000, or 13.9%, increase in health care costs;

- FDIC deposit insurance expense increased by $381,000 and returned to a more normal level after the benefit from the application of the Small Bank Assessment Credit regulation expired earlier this year;

- a $334,000, or 6.8%, increase in professional fees resulted from higher appraisal fees due to the significantly higher level of residential mortgage loan production, higher legal fees related to PPP loan processing, personnel related matters and an increased level of outside professional services related costs; and

- a $215,000, or 3.8%, decrease in other expense due to reduced outside processing fees and telephone costs as well as a lower level of meals and travel costs that relates to travel restrictions from the pandemic. In addition, the favorable comparison for other expense also resulted from a reduction recognized for the unfunded commitment reserve.

Non-interest expense for 2019 totaled $41.8 million, which represents a $942,000, or 2.3%, increase from 2018. Factors contributing to the higher non-interest expense in 2019 included:

- a $1.1 million, or 4.4%, increase in salaries & benefits expense was due to annual merit increases, the addition of several employees to address management succession planning as well as our expansion into the Hagerstown, Maryland market. Increased pension and health care costs also contributed to the higher employee costs between years;

- a $457,000, or 82.0%, reduction in FDIC insurance expense. As part of the application of the Small Bank Assessment Credit regulation, the FDIC awarded community banks under $10 billion in assets an assessment credit because the banking industry reserve ratio exceeded its 1.38% target;

- a $397,000, or 7.6%, increase in other expense was due to additional expense for the unfunded commitment reserve as a result of increased loan approvals in 2019, as well as, an increased investment in technology as evidenced by higher website costs and additional telecommunications expense; and

- a $154,000, or 3.1%, decrease in professional fees was due to lower legal fees and other professional fees.

**INCOME TAX EXPENSE.** The Company recorded an income tax expense of $1.2 million, or an effective tax rate of 20.9%, in 2020, compared to income tax expense of $1.6 million, or a 20.7% effective tax rate, in 2019, and compared to income tax expense of $1.7 million, or a 17.8% effective tax rate, in 2018. The higher effective tax rate in

2020 reflects the recognition of additional income tax expense due to the write-off of a deferred tax asset that will not be realized due to the dissolution of the Company's small life insurance subsidiary. Due to the enactment of the Tax Cuts and Jobs Act late in the fourth quarter of 2017, 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 resulting in a lower effective tax rate for that year. The Company's deferred tax asset was $1.6 million at December 31, 2020.

**SEGMENT RESULTS.** The community banking segment reported a net income contribution of $10.1 million in 2020 which decreased from the $10.9 million contribution in 2019 and also decreased from the $11.1 million contribution in 2018. The primary driver for the lower level of net income in 2020 was the Company recording an $2,375,000 provision expense for loan losses compared to an $800,000 provision in 2019. This is discussed previously in the "Allowance and Provision for Loan Losses" section within this document. The downward shift in the U.S. Treasury yield curve between years along with the Federal Reserve's actions to decrease the fed funds rate three times in the second half of 2019 and by 150 basis points in March of 2020 negatively impacted the Company's earning asset margin performance. As a result, total loan interest income decreased between years. Partially offsetting the unfavorable impact that the lower interest rate environment had on loan interest income was the additional processing fee income and interest income that the Company recorded from PPP lending activity, which totaled $1,873,000 for 2020. The exceptionally stronger level of residential mortgage loan activity in 2020 resulted in this segment recognizing a higher gain on the sale of residential mortgage loans in the secondary market and a corresponding greater level of mortgage related fee income. Also favorably impacting net income was this segment experiencing deposit cost relief as total deposit interest expense decreased between years due to management's action to lower pricing of several deposit products, given the declining interest rate environment. The decrease to total deposit interest expense occurred even though total deposits reached record levels which is described previously in the MD&A. Net income from this segment was also favorably impacted by a higher level of revenue from bank owned life insurance due to the receipt of a death claim received late in the year and a financial floor taking hold which caused increased earnings from a higher rate of return on certain policies. Finally, and unfavorably impacting net income were increases to total employee costs, a higher level of FDIC insurance expense and increased professional fees.

The wealth management segment's net income contribution was $2.0 million in 2020 compared to $1.9 million in 2019 and $1.8 million in 2018. The increase is due to wealth management fees increasing in both time periods as this segment was positively impacted by management's effective execution of managing client accounts. The entire wealth management segment has been resilient and performed well in spite of the volatility of the markets and a major market value decline that occurred in late March. The wealth management segment also benefitted from a lower level of meals & travel related expenses due to travel restrictions from the pandemic. Slightly offsetting these favorable items were higher levels of professional fees, incentive compensation and equipment costs. Overall, the fair market value of trust assets under administration totaled $2.481 billion at December 31, 2020, an increase of $243 million, or 10.9%, from the December 31, 2019 total of $2.238 billion.

The investment/parent segment reported a net loss of $7.5 million in 2020, which was greater than the net loss of $6.8 million in 2019 and $5.1 million in 2018. The increased loss was due to securities interest income decreasing by a higher amount than the decrease to total short term FHLB borrowings interest expense. Also, short-term investment interest income decreased in 2020 even though the Company experienced exceptionally strong growth in its liquidity position between years from the significant influx of deposits that resulted from the government stimulus programs. The yields on commercial paper decreased significantly during the second half of 2020 and resulted in reduced interest income. The greater net loss at the segment also results from higher employee costs and greater miscellaneous expenses. Finally, and favorably impacting this segment, there were no security sale gains or losses recognized during 2020 after this segment recognized a net loss of $382,000 in 2019 due to an impairment charge on a CRA investment which more than offset net security sale gain income.

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 23.

**BALANCE SHEET.** The Company's total consolidated assets of $1.280 billion at December 31, 2020 increased by $108.5 million, or 9.3%, from the $1.171 billion level at December 31, 2019. The increase to total consolidated assets was due primarily to a $90.8 million, or 10.2%, increase in total loans, a $6.7 million, or 3.7%, increase in investment securities, and a $9.3 million, or 42.1%, increase in cash balances. Overall, our loan portfolio benefitted from the increasing commercial loan production that began late in the third quarter and continued throughout the fourth quarter. We also continued to experience strong residential mortgage loan production. This commercial and residential mortgage loan growth combined with AmeriServ's participation in the Small Business Administration's (SBA) 100% guaranteed Paycheck Protection Program (PPP) resulted in a higher level of loans. The Company was selective in 2020 when purchasing the more typical types of securities that have been purchased historically as the market was less favorable for purchases. To somewhat offset the unfavorable market for the more traditional types of purchases, the Company has been active since March purchasing corporate securities, particularly subordinated debt issued by other financial institutions along with taxable municipal securities. Our liquidity position continues to be strong due to the significant influx of deposits that resulted from the government stimulus programs and as customers continue to be cautious and are demonstrating reduced spending activity due to the economic uncertainty.

The Company's deposits at period end reached a record level and increased by $94.4 million, or 9.8%, reflecting the benefit of government stimulus programs and reduced consumer spending in 2020. Total short-term and FHLB borrowings increased $13.6 million, or 17.9%. Specifically, total FHLB term advances increased by $11.3 million, or 21.1%, and totaled $65.0 million. The Company has utilized these term advances to help manage interest rate risk and take advantage of the lower yield curve to prudently extend borrowings. During 2020, the rate on certain FHLB term advances was lower than the rate on overnight borrowed funds.

Total stockholders' equity increased by $5.8 million, or 5.9%, since year-end 2019. Capital was increased during 2020 by the Company's $4.6 million of net income, the $1.8 million positive impact experienced due to the improved market value of the available for sale investment securities portfolio, and the $1.1 million positive impact from the annual revaluation of the Company's pension obligation. Slightly offsetting these increases, was the $1.7 million common stock cash dividend and $151,000 of common stock repurchases. The Company returned approximately 41% of our 2020 earnings to our shareholders through the accretive common stock repurchases and quarterly common stock cash dividend. The Company continues to be considered well capitalized for regulatory purposes with a risk based capital ratio of 12.93% and an asset leverage ratio of 9.29% at December 31, 2020. The Company's book value per common share was $6.12, its tangible book value per common share (non-GAAP) was $5.42 and its tangible common equity to tangible assets ratio (non-GAAP) was 7.29% at December 31, 2020.

The tangible common equity ratio and tangible book value per share are considered to be non-GAAP measures and are calculated by dividing tangible equity by tangible assets or shares outstanding. The Company believes that these non-GAAP financial measures provide information to investors that is useful in understanding its financial condition. This non-GAAP data should be considered in addition to results prepared in accordance with GAAP, and is not a substitute for, or superior to, GAAP results. Limitations associated with non-GAAP financial measures include the risks that persons might disagree as to the appropriateness of items included in these measures, and, because not all companies use the same calculation of tangible common equity and tangible assets, this presentation may not be comparable to other similarly titled measures calculated by other companies. The following table sets forth the calculation of the Company's tangible common equity ratio and tangible book value per share at December 31, 2020, 2019, and 2018 (in thousands, except share and ratio data):

| | AT DECEMBER 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| Total shareholders' equity | **$ 104,399** | $ 98,614 | $ 97,977 |
| Less: Goodwill | **11,944** | 11,944 | 11,944 |
| Tangible equity | **92,455** | 86,670 | 86,033 |
| Total assets | **1,279,713** | 1,171,184 | 1,160,680 |
| Less: Goodwill | **11,944** | 11,944 | 11,944 |
| Tangible assets | **1,267,769** | 1,159,240 | 1,148,736 |
| Tangible common equity ratio (non-GAAP) | **7.29 %** | 7.48 % | 7.49 % |
| Total shares outstanding | **17,060,144** | 17,057,871 | 17,619,303 |
| Tangible book value per share (non-GAAP) | **$ 5.42** | $ 5.08 | $ 4.88 |

**LIQUIDITY.** The Company's liquidity position continues to be exceptionally strong due to the significant influx of deposits that resulted from the government stimulus programs and as customers continue to be cautious and are demonstrating reduced spending activity due to the economic uncertainty. As a result total deposits on December 31, 2020 reached a record level at 1.055 billion. In addition, the Company's loyal core deposit base continues to prove to be a source of strength for the Company during periods of market volatility. The core deposit base is adequate to fund the Company's operations. Cash flow from maturities, prepayments and amortization of securities is used to help fund loan growth. Average short-term investments were higher than they have been historically which presented the challenge of profitably deploying this excess liquidity given a steady decline in yields on short term investment products as 2020 progressed. The pressure to find a suitable return on these excess liquid funds eased during the fourth quarter given the loan growth that occurred. Due to the loan growth, short term investment balances returned to a more normal, lower level in the fourth quarter of 2020. We strive to operate our loan to deposit ratio in a range of 80% to 100%. At December 31, 2020, the Company's loan to deposit ratio was 92.7%. Given current commercial loan pipelines, which are now at pre-pandemic levels, we are optimistic that we can grow our loan to deposit ratio and remain within our guideline parameters. Also, we are positioned well to support our local economy and provide the necessary assistance to our community partners during this period of pandemic.

Liquidity can also be analyzed by utilizing the Consolidated Statements of Cash Flows. Cash and cash equivalents increased by $9.3 million from December 31, 2019, to $31.5 million at December 31, 2020, due to $106.0 million of cash provided by financing activities which more than offset $95.3 million of cash used in investing activities and $1.4 million of cash used in operating activities. Within financing activities, deposits increased by $94.4 million while total FHLB borrowings also increased as term advances increased by $11.3 million and short-term borrowings increased by $2.3 million. Within investing activities, cash advanced for new loans originated totaled $301.2 million and was $89.0 million higher than the $212.2 million of cash received from loan principal payments. Within operating activities, $87.1 million of mortgage loans held for sale were originated while $87.3 million of mortgage loans were sold into the secondary market.

The holding company had $5.9 million of cash, short-term investments, and investment securities at December 31, 2020. Additionally, dividend payments from our subsidiaries also provide ongoing cash to the holding company. At December 31, 2020, our subsidiary Bank had $12.6 million of cash available for immediate dividends to the holding company under applicable regulatory formulas. Management follows a policy that dividend payments from the Trust Company approximate 75% of annual net income. Overall, we believe that the holding company has good liquidity to meet its trust preferred debt service requirements, its subordinated debt interest payments, and its common stock dividend.

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 investments, time deposits with banks, and federal funds sold. These assets totaled $31.5 million and $22.2 million at December 31, 2020 and December 31, 2019, 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 certain residential mortgage, commercial real estate, and commercial and industrial loans. At December 31, 2020, the Company had $329 million of overnight borrowing availability at the FHLB, $30 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 Company's common equity tier 1 capital ratio was 10.06%, the tier 1 capital ratio was 11.20%, and the total capital ratio was 12.93% at December 31, 2020. The Company's tier 1 leverage ratio was 9.29% at December 31, 2020. We anticipate that we will maintain our strong capital ratios throughout 2021.

Capital generated from earnings will be utilized to pay the common stock cash dividend and will support controlled balance sheet growth. Our common dividend payout ratio for the full year 2020 was 37.0%. Total Parent Company cash was $5.9 million at December 31, 2020. There is a particular emphasis on ensuring that the subsidiary bank has appropriate levels of capital to support its non-owner occupied commercial real estate loan concentration, which stood at 348% of regulatory capital at December 31, 2020. While we work through the COVID-19 pandemic, our focus is on preserving capital to support customer lending and managing heightened credit risk due to the downturn in the economy. Additionally, we currently believe that we have sufficient capital and earnings power to continue to pay our common stock cash dividend at its current rate of $0.025 per quarter.

The Basel III capital standards establish the minimum capital levels in addition to the well capitalized requirements under the federal banking regulations prompt corrective action. The capital rules also impose a 2.5% capital conservation buffer ("CCB") on top of the three minimum risk-weighted asset ratios. Banking institutions that fail to meet the effective minimum ratios once the CCB is taken into account will be subject to constraints on capital distributions, including dividends and share repurchases, and certain discretionary executive compensation. The severity of the constraints depends on the amount of the shortfall and the institution's "eligible retained income" (four quarter trailing net income, net of distributions and tax effects not reflected in net income). The Company and the Bank meet all capital requirements, including the CCB, and continue 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.

Under the Basel III capital standards, the minimum capital ratios are:

| | MINIMUM CAPITAL RATIO | MINIMUM CAPITAL RATIO PLUS CAPITAL CONSERVATION BUFFER |
|---|---|---|
| Common equity tier 1 capital to risk-weighted assets | 4.5 % | 7.0 % |
| Tier 1 capital to risk-weighted assets | 6.0 | 8.5 |
| Total capital to risk-weighted assets | 8.0 | 10.5 |
| Tier 1 capital to total average consolidated assets | 4.0 | |

In the first quarter of 2020, the Company completed the common stock repurchase program, which it had announced on April 16, 2019, where it bought back 526,000 shares, or 3%, of its common stock over a 12-month period at a total cost of $2.23 million. Specifically, during the first three months of 2020, the Company was able to repurchase 35,962 shares of its common stock and return $151,000 of capital to its shareholders through this program. Evaluation of a new common stock buyback program is on hold. At December 31, 2020, the Company had approximately 17.1 million common shares outstanding.

**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 of Directors on an ongoing basis.

The following table presents a summary of the Company's static GAP positions at December 31, 2020:

| INTEREST SENSITIVITY PERIOD | 3 MONTHS OR LESS | OVER 3 MONTHS THROUGH 6 MONTHS | OVER 6 MONTHS THROUGH 1 YEAR | OVER 1 YEAR | TOTAL |
|---|---|---|---|---|---|
| | (IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES) | | | | |
| RATE SENSITIVE ASSETS: | | | | | |
| Loans and loans held for sale | $ 364,560 | $ 76,976 | $ 121,841 | $ 414,968 | $ 978,345 |
| Investment securities | 52,860 | 10,962 | 18,489 | 106,076 | 188,387 |
| Short-term assets | 11,077 | — | — | — | 11,077 |
| Regulatory stock | 4,821 | — | — | 2,125 | 6,946 |
| Bank owned life insurance | — | — | 39,208 | — | 39,208 |
| Total rate sensitive assets | $ 433,318 | $ 87,938 | $ 179,538 | $ 523,169 | $ 1,223,963 |
| RATE SENSITIVE LIABILITIES: | | | | | |
| Deposits: | | | | | |
| Non-interest bearing demand deposits | $ — | $ — | $ — | $ 177,533 | $ 177,533 |
| Interest bearing demand deposits | 63,153 | 950 | 1,901 | 134,965 | 200,969 |
| Savings | 482 | 482 | 964 | 110,425 | 112,353 |
| Money market | 56,874 | 5,491 | 10,982 | 146,572 | 219,919 |
| Certificates of deposit of $100,000 or more | 16,919 | 8,139 | 20,588 | 3,285 | 48,931 |
| Other time deposits | 117,587 | 25,440 | 36,101 | 116,087 | 295,215 |
| Total deposits | 255,015 | 40,502 | 70,536 | 688,867 | 1,054,920 |
| Borrowings | 34,617 | 4,075 | 10,646 | 64,742 | 114,080 |
| Total rate sensitive liabilities | $ 289,632 | $ 44,577 | $ 81,182 | $ 753,609 | $ 1,169,000 |
| INTEREST SENSITIVITY GAP: | | | | | |
| Interval | 143,686 | 43,361 | 98,356 | (230,440) | — |
| Cumulative | $ 143,686 | $ 187,047 | $ 285,403 | $ 54,963 | $ 54,963 |
| Period GAP ratio | 1.50X | 1.97X | 2.21X | 0.69X | |
| Cumulative GAP ratio | 1.50 | 1.56 | 1.69 | 1.05 | |
| Ratio of cumulative GAP to total assets | 11.23 % | 14.62 % | 22.30 % | 4.29 % | |

When December 31, 2020 is compared to December 31, 2019, the Company's cumulative GAP ratio through one year indicates that the Company's balance sheet is still asset sensitive and the level of asset sensitivity increased between years. We continue to see loan customer preference for fixed rate loans given the low overall level of interest rates. As a result of the government stimulus programs and the impact that the pandemic had on consumer spending activity, both loans and deposits increased to record levels in 2020. The growth experienced in the loan portfolio and short term investments was funded by the increase in total deposits and also a modestly higher level of overnight short term borrowings. Overnight borrowings are immediately impacted by changes to national interest rates. We continue to have a relatively consistent level of term advances with the FHLB to help manage our interest rate risk position. The balance of FHLB term advance borrowings at December 31, 2020 is $11.3 million higher than the December 31, 2019 balance as the Company took advantage of the lower yield curve to prudently extend borrowings. The rate on certain FHLB term advances is lower than the rate on overnight borrowings.

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 -5.0% and -7.5%, which include interest rate movements of 100 and 200 basis points, respectively. 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 | 6.8 % | 62.3 % |
| 100 bp increase | 3.9 | 35.4 |
| 100 bp decrease | (1.7) | (27.3) |

The Company believes that its overall interest rate risk position is well controlled. The variability of net interest income is positive in the upward rate shocks due to the Company's short duration investment securities portfolio and the scheduled repricing of loans tied to LIBOR or prime. Also, the Company will continue its disciplined approach to price its core deposit accounts in a controlled but competitive manner. The variability of net interest income is negative in the 100 basis point downward rate scenario as the Company has more exposure to assets repricing downward to a greater extent than liabilities due to the absolute low level of interest rates with the fed funds rate currently at a targeted range of 0% to 0.25%. The market value of portfolio equity increases in the upward rate shocks due to the improved value of the Company's core deposit base. Negative variability of market value of portfolio equity occurs in the downward rate shock due to a reduced value for core deposits.

Within the investment portfolio at December 31, 2020, 76.0% of the portfolio is classified as available for sale and 24.0% 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 41 securities that are temporarily impaired at December 31, 2020. The Company reviews its securities quarterly and has asserted that at December 31, 2020, 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 of 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 2020, 60% of all residential mortgage loan production was sold into the secondary market.

The amount of loans outstanding by category as of December 31, 2020, 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 | $ 30,456 | $ 147,223 | $ 31,827 | $ 209,506 |
| Commercial loans secured by owner occupied real estate | 1,687 | 18,866 | 74,933 | 95,486 |
| Commercial loans secured by non-owner occupied real estate | 38,319 | 123,198 | 239,234 | 400,751 |
| Real estate – residential mortgage | 15,948 | 39,644 | 200,647 | 256,239 |
| Consumer | 5,816 | 4,207 | 6,340 | 16,363 |
| Total | $ 92,226 | $ 333,138 | $ 552,981 | $ 978,345 |
| Loans with fixed-rate | $ 50,339 | $ 249,623 | $ 278,013 | $ 577,975 |
| Loans with floating-rate | 41,887 | 83,515 | 274,968 | 400,370 |
| Total | $ 92,226 | $ 333,138 | $ 552,981 | $ 978,345 |
| Percent composition of maturity | 9.4 % | 34.1 % | 56.5 % | 100.0 % |
| Fixed-rate loans as a percentage of total loans | | | | 59.1 % |
| Floating-rate loans as a percentage of total loans | | | | 40.9 % |

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 $213.9 million and standby letters of credit of $13.3 million as of December 31, 2020. 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, 2020, the Company had $93.5 million in the notional amount of interest rate swaps outstanding, with a fair value of $3.3 million.

As of December 31, 2020 and 2019, municipal deposit letters of credit issued by the Federal Home Loan Bank of Pittsburgh on behalf of AmeriServ Financial Bank naming applicable municipalities as beneficiaries totaled $61.3 million and $41.5 million, respectively. The letters of credit serve as collateral, in place of pledged securities, for municipal deposits maintained at AmeriServ Financial Bank.

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

**ACCOUNT — Pension liability**
**BALANCE SHEET REFERENCE — Other liabilities**
**INCOME STATEMENT REFERENCE — Salaries and employee benefits and Other expense**
**DESCRIPTION**

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. Additionally, pension expense can also be impacted by settlement accounting charges if the amount of employees selected lump sum distributions exceed the total amount of service and interest component costs of the net periodic pension cost in a particular year. Our pension benefits are described further in Note 17 of the Notes to Consolidated Financial Statements.

**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 allowance for loan losses. Approximately $8.8 million, or 78%, of the total allowance for loan losses at December 31, 2020 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, 2020, 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, 2020, 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 strive to increase earnings per share; identifying and managing revenue growth and expense control and reduction; and managing risk. Our goal is to increase value for AmeriServ shareholders by growing earnings per share and narrowing the financial performance gap between AmeriServ and its peer banks. We try to return earnings to shareholders through a combination of dividends and share repurchases subject to maintaining sufficient capital to support balance sheet growth and economic uncertainty. 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 controlling 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.

- 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 we serve 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; (xii) potential risks and uncertainties also include those relating to the duration of the COVID-19 outbreak, and actions that may be taken by governmental authorities to contain the outbreak or to treat its impact; and (xiii) 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 seeks to identify, manage and monitor these risks with policies, procedures, and various levels of managerial and Board oversight. The Company's objective is to optimize profitability while managing and monitoring 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 Consolidated 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 Consolidated 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 allowance for loan losses 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 Consolidated 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, 2020 | AT DECEMBER 31, 2019 |
|---|---|---|
| | (IN THOUSANDS, EXCEPT SHARE DATA) | |
| ASSETS | | |
| Cash and due from depository institutions | $ 20,427 | $ 15,642 |
| Interest bearing deposits | 2,585 | 2,755 |
| Short-term investments | 8,492 | 3,771 |
| Cash and cash equivalents | 31,504 | 22,168 |
| Investment securities: | | |
| Available for sale, at fair value | 144,165 | 141,749 |
| Held to maturity (fair value $47,106 on December 31, 2020 and $41,082 on December 31, 2019) | 44,222 | 39,936 |
| Loans held for sale | 6,250 | 4,868 |
| Loans | 973,297 | 883,090 |
| Less: Unearned income | 1,202 | 384 |
| Less: Allowance for loan losses | 11,345 | 9,279 |
| Net loans | 960,750 | 873,427 |
| Premises and equipment: | | |
| Operating lease right-of-use asset | 758 | 846 |
| Financing lease right-of-use asset | 2,956 | 3,078 |
| Other premises and equipment, net | 14,336 | 14,643 |
| Accrued interest income receivable | 5,068 | 3,449 |
| Goodwill | 11,944 | 11,944 |
| Bank owned life insurance | 39,033 | 38,916 |
| Net deferred tax asset | 1,572 | 3,976 |
| Federal Home Loan Bank stock | 4,821 | 3,985 |
| Federal Reserve Bank stock | 2,125 | 2,125 |
| Other assets | 10,209 | 6,074 |
| TOTAL ASSETS | $ 1,279,713 | $ 1,171,184 |
| LIABILITIES | | |
| Non-interest bearing deposits | $ 177,533 | $ 136,462 |
| Interest bearing deposits | 877,387 | 824,051 |
| Total deposits | 1,054,920 | 960,513 |
| Short-term borrowings | 24,702 | 22,412 |
| Advances from Federal Home Loan Bank | 64,989 | 53,668 |
| Operating lease liabilities | 776 | 865 |
| Financing lease liabilities | 3,109 | 3,163 |
| Guaranteed junior subordinated deferrable interest debentures | 12,970 | 12,955 |
| Subordinated debt | 7,534 | 7,511 |
| Total borrowed funds | 114,080 | 100,574 |
| Other liabilities | 6,314 | 11,483 |
| TOTAL LIABILITIES | 1,175,314 | 1,072,570 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, par value $0.01 per share; 30,000,000 shares authorized; 26,688,963 shares issued and 17,060,144 shares outstanding on December 31, 2020; 26,650,728 shares issued and 17,057,871 shares outstanding on December 31, 2019 | 267 | 267 |
| Treasury stock at cost, 9,628,819 shares on December 31, 2020 and 9,592,857 shares on December 31, 2019 | (83,280) | (83,129) |
| Capital surplus | 145,969 | 145,888 |
| Retained earnings | 54,641 | 51,759 |
| Accumulated other comprehensive loss, net | (13,198) | (16,171) |
| TOTAL SHAREHOLDERS' EQUITY | 104,399 | 98,614 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 1,279,713 | $ 1,171,184 |

See accompanying notes to consolidated financial statements.

## AMERISERV FINANCIAL, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | |
| INTEREST INCOME | | | |
| Interest and fees on loans: | | | |
| Taxable | **$ 40,518** | $ 42,832 | $ 40,938 |
| Tax exempt | **110** | 101 | 90 |
| Interest bearing deposits | **15** | 24 | 20 |
| Short-term investments | **231** | 293 | 201 |
| Investment securities: | | | |
| Available for sale | **4,591** | 5,090 | 4,527 |
| Held to maturity | **1,417** | 1,427 | 1,318 |
| Total Interest Income | **46,882** | 49,767 | 47,094 |
| INTEREST EXPENSE | | | |
| Deposits | **7,634** | 11,189 | 8,443 |
| Short-term borrowings | **29** | 288 | 720 |
| Advances from Federal Home Loan Bank | **1,099** | 1,090 | 797 |
| Financing lease liabilities | **112** | 117 | — |
| Guaranteed junior subordinated deferrable interest debentures | **1,121** | 1,121 | 1,120 |
| Subordinated debt | **520** | 520 | 520 |
| Total Interest Expense | **10,515** | 14,325 | 11,600 |
| Net Interest Income | **36,367** | 35,442 | 35,494 |
| Provision (credit) for loan losses | **2,375** | 800 | (600) |
| Net Interest Income after Provision (Credit) for Loan Losses | **33,992** | 34,642 | 36,094 |
| NON-INTEREST INCOME | | | |
| Wealth management fees | **10,212** | 9,730 | 9,659 |
| Service charges on deposit accounts | **903** | 1,271 | 1,420 |
| Net gains on loans held for sale | **1,523** | 865 | 489 |
| Mortgage related fees | **559** | 302 | 196 |
| Net realized gains (losses) on investment securities | **—** | 118 | (439) |
| Impairment charge on other investments | **—** | (500) | — |
| Bank owned life insurance | **782** | 521 | 536 |
| Other income | **2,296** | 2,466 | 2,363 |
| Total Non-Interest Income | **16,275** | 14,773 | 14,224 |
| NON-INTEREST EXPENSE | | | |
| Salaries and employee benefits | **27,390** | 25,429 | 24,358 |
| Net occupancy expense | **2,510** | 2,497 | 2,462 |
| Equipment expense | **1,559** | 1,510 | 1,464 |
| Professional fees | **5,219** | 4,885 | 5,039 |
| Supplies, postage and freight | **714** | 605 | 674 |
| Miscellaneous taxes and insurance | **1,143** | 1,135 | 1,062 |
| Federal deposit insurance expense | **481** | 100 | 557 |
| Other expense | **5,439** | 5,654 | 5,257 |
| Total Non-Interest Expense | **44,455** | 41,815 | 40,873 |
| PRETAX INCOME | **5,812** | 7,600 | 9,445 |
| Provision for income taxes | **1,214** | 1,572 | 1,677 |
| NET INCOME | **$ 4,598** | $ 6,028 | $ 7,768 |

## AMERISERV FINANCIAL, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | **(IN THOUSANDS, EXCEPT PER SHARE DATA)** | | |
| PER COMMON SHARE DATA: | | | |
| Basic: | | | |
| Net income | **$ 0.27** | $ 0.35 | $ 0.43 |
| Average number of shares outstanding | **17,053** | 17,359 | 17,933 |
| Diluted: | | | |
| Net income | **$ 0.27** | $ 0.35 | $ 0.43 |
| Average number of shares outstanding | **17,063** | 17,440 | 18,037 |
| Cash dividends declared | **$ 0.100** | $ 0.095 | $ 0.075 |

See accompanying notes to consolidated financial statements.

## AMERISERV FINANCIAL, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| | (IN THOUSANDS) | | |
| COMPREHENSIVE INCOME | | | |
| Net income | **$ 4,598** | $ 6,028 | $ 7,768 |
| Other comprehensive income (loss), before tax: | | | |
| Pension obligation change for defined benefit plan | **1,454** | (6,418) | (244) |
| Income tax effect | **(305)** | 1,348 | 51 |
| Unrealized holding gains (losses) on available for sale securities arising during period | **2,309** | 4,072 | (1,810) |
| Income tax effect | **(485)** | (855) | 381 |
| Reclassification adjustment for net realized (gains) losses on available for sale securities included in net income | **—** | (118) | 439 |
| Income tax effect | **—** | 25 | (92) |
| Other comprehensive income (loss) | **2,973** | (1,946) | (1,275) |
| Comprehensive income | **$ 7,571** | $ 4,082 | $ 6,493 |

See accompanying notes to consolidated financial statements.

## AMERISERV FINANCIAL, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | (IN THOUSANDS) | | |
| COMMON STOCK | | | |
| Balance at beginning of period | **$ 267** | $ 266 | $ 266 |
| New common shares issued for exercise of stock options (38,235, 40,917, and 24,408 shares in 2020, 2019, and 2018, respectively) | **—** | 1 | — |
| Balance at end of period | **267** | 267 | 266 |
| TREASURY STOCK | | | |
| Balance at beginning of period | **(83,129)** | (80,579) | (78,233) |
| Treasury stock, purchased at cost (35,962, 602,349, and 533,352 shares in 2020, 2019, and 2018, respectively) | **(151)** | (2,550) | (2,346) |
| Balance at end of period | **(83,280)** | (83,129) | (80,579) |
| CAPITAL SURPLUS | | | |
| Balance at beginning of period | **145,888** | 145,782 | 145,707 |
| New common shares issued for exercise of stock options (38,235, 40,917, and 24,408 shares in 2020, 2019, and 2018, respectively) | **78** | 99 | 61 |
| Stock option expense | **3** | 7 | 14 |
| Balance at end of period | **145,969** | 145,888 | 145,782 |
| RETAINED EARNINGS | | | |
| Balance at beginning of period | **51,759** | 46,733 | 40,312 |
| Net income | **4,598** | 6,028 | 7,768 |
| Cash dividend declared on common stock ($0.100, $0.095, and $0.075 per share in 2020, 2019, and 2018, respectively) | **(1,716)** | (1,642) | (1,347) |
| Cumulative effect adjustment for change in accounting principal | **—** | 640 | — |
| Balance at end of period | **54,641** | 51,759 | 46,733 |
| ACCUMULATED OTHER COMPREHENSIVE LOSS, NET | | | |
| Balance at beginning of period | **(16,171)** | (14,225) | (12,950) |
| Other comprehensive income (loss) | **2,973** | (1,946) | (1,275) |
| Balance at end of period | **(13,198)** | (16,171) | (14,225) |
| TOTAL STOCKHOLDERS' EQUITY | **$ 104,399** | $ 98,614 | $ 97,977 |

See accompanying notes to consolidated financial statements.

## AMERISERV FINANCIAL, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEAR ENDED DECEMBER 31 | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | (IN THOUSANDS) | | |
| **OPERATING ACTIVITIES** | | | |
| Net income | **$ 4,598** | $ 6,028 | $ 7,768 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Provision (credit) for loan losses | **2,375** | 800 | (600) |
| Depreciation and amortization expense | **1,996** | 1,873 | 1,530 |
| Net amortization of investment securities | **285** | 279 | 347 |
| Net realized (gains) losses on investment securities — available for sale | **—** | (118) | 439 |
| Impairment charge on other investments | **—** | 500 | — |
| Net gains on loans held for sale | **(1,523)** | (865) | (489) |
| Amortization of deferred loan fees | **(707)** | (142) | (149) |
| Origination of mortgage loans held for sale | **(87,140)** | (49,460) | (28,916) |
| Sales of mortgage loans held for sale | **87,281** | 46,304 | 31,683 |
| Decrease (increase) in accrued interest receivable | **(1,619)** | 40 | 114 |
| Increase (decrease) in accrued interest payable | **(525)** | 546 | 302 |
| Earnings on bank-owned life insurance | **(782)** | (521) | (536) |
| Deferred income taxes | **1,614** | 179 | 2,665 |
| Stock compensation expense | **3** | 7 | 14 |
| Net change in operating leases | **(89)** | (67) | — |
| Other, net | **(7,140)** | (493) | (6,188) |
| Net cash provided by (used in) operating activities | **(1,373)** | 4,890 | 7,984 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of investment securities — available for sale | **(36,519)** | (18,084) | (45,427) |
| Purchase of investment securities — held to maturity | **(9,359)** | (2,257) | (5,746) |
| Proceeds from maturities of investment securities — available for sale | **36,215** | 23,559 | 16,299 |
| Proceeds from maturities of investment securities — held to maturity | **4,985** | 3,007 | 3,651 |
| Proceeds from sales of investment securities — available for sale | **—** | 3,374 | 9,466 |
| Purchase of regulatory stock | **(9,979)** | (13,557) | (18,681) |
| Proceeds from redemption of regulatory stock | **9,143** | 14,092 | 18,836 |
| Long-term loans originated | **(301,210)** | (205,603) | (155,191) |
| Principal collected on long-term loans | **212,179** | 185,054 | 181,582 |
| Purchases of premises and equipment | **(1,325)** | (2,821) | (2,144) |
| Proceeds from sale of other real estate owned | **63** | 214 | 46 |
| Proceeds from life insurance policies | **490** | — | — |
| Net cash provided by (used in) investing activities | **(95,317)** | (13,022) | 2,691 |
| **FINANCING ACTIVITIES** | | | |
| Net increase in deposit balances | **94,407** | 11,342 | 1,226 |
| Net increase (decrease) in other short-term borrowings | **2,290** | (18,617) | (8,055) |
| Principal borrowings on advances from Federal Home Loan Bank | **36,050** | 22,527 | 12,492 |
| Principal repayments on advances from Federal Home Loan Bank | **(24,729)** | (15,580) | (12,000) |
| Principal payments on financing lease liabilities | **(203)** | (173) | — |
| Stock options exercised | **78** | 99 | 61 |
| Purchases of treasury stock | **(151)** | (2,550) | (2,346) |
| Common stock dividend paid | **(1,716)** | (1,642) | (1,347) |
| Net cash provided by (used in) financing activities | **106,026** | (4,594) | (9,969) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **9,336** | (12,726) | 706 |
| CASH AND CASH EQUIVALENTS AT JANUARY 1 | **22,168** | 34,894 | 34,188 |
| CASH AND CASH EQUIVALENTS AT DECEMBER 31 | **$ 31,504** | $ 22,168 | $ 34,894 |

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. In a press release dated January 15, 2021, the Company announced the execution of a definitive agreement whereby AmeriServ will acquire a branch and deposit customers from two locations in southwestern Pennsylvania of Citizen's Neighborhood Bank (CNB), an operating division of Riverview Bank. The transaction is subject to regulatory approvals and satisfaction of customary closing conditions and is expected to close in the second quarter of 2021.

The AmeriServ Trust and Financial Services Company (the Trust Company) offers a complete range of trust and financial services and administers assets valued at approximately $2.5 billion that are not recognized on the Company's Consolidated Balance Sheets at December 31, 2020.

### PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of AmeriServ Financial, Inc. and its wholly-owned subsidiaries, AmeriServ Financial Bank (the Bank), the Trust Company, and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a Pennsylvania state-chartered full service bank with 15 locations in Pennsylvania and 1 location in Maryland. AmeriServ Life was a captive insurance company that engaged in underwriting as a reinsurer of credit life and disability insurance. New business ceased being generated by AmeriServ Life in 2005. Since that time, outstanding insurance policies have been running off, and the final policy has expired. On September 30, 2020, the Arizona Corporation Commission approved the Articles of Dissolution for AmeriServ Life. The remaining assets of AmeriServ Life were transferred to AmeriServ Financial, Inc. and the subsidiary was formally closed on December 31, 2020.

In addition, the Parent Company is an administrative group that provides support in such areas as audit, finance, investments, loan review, general services, and marketing. 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 on certain securities within the investments portfolio 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.

Additionally, the Company holds equity securities which are comprised of mutual funds held within a rabbi trust for the executive deferred compensation plan. Such securities are reported at fair value within other assets on the Consolidated Balance Sheets. Unrealized holding gains and losses on equity securities are included in earnings.

**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: (1) 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; (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (3) the impact of legislative and regulatory changes on the customer base of FHLB; and (4) 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 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 fair 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.

**LEASES:**

The Company has operating and financing leases for several office locations and equipment. Generally, the underlying lease agreements do not contain any material residual value guarantees or material restrictive covenants. Many of our leases include both lease (e.g., minimum rent payments) and non-lease components, such as common area maintenance charges, utilities, real estate taxes, and insurance. The Company has elected to account for the variable non-lease components separately from the lease component. Such variable non-lease components are reported in net occupancy expense on the Consolidated Statements of Operations when incurred. These variable non-lease components were excluded from the calculation of the present value of the remaining lease payments, therefore, they are not included in the right-of-use assets and lease liabilities reported on the Consolidated Balance Sheets.

Certain of the Company's leases contain options to renew the lease after the initial term. Management considers the Company's historical pattern of exercising renewal options on leases and the performance of the leased locations, when determining whether it is reasonably certain that the leases will be renewed. If management concludes that there is reasonable certainty about the renewal option, it is included in the calculation of the remaining term of each applicable lease. The discount rate utilized in calculating the present value of the remaining lease payments for each lease was the Federal Home Loan Bank of Pittsburgh advance rate corresponding to the remaining maturity of the lease.

Under Topic 842, the lessee can elect to not record on the Consolidated Balance Sheets a lease whose term is twelve months or less and does not include a purchase option that the lessee is reasonably certain to exercise. As of December 31, 2020, the Company had no short-term leases. As of December 31, 2019, the Company had one short-term equipment lease which it has elected to not record on the Consolidated Balance Sheets.

**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 impaired commercial and commercial real estate loans to determine if any specific reserve allocations are required on an individual loan basis. In addition, consumer and residential mortgage loans with a balance of $150,000 or more are evaluated for impairment and specific reserve allocations are established, if applicable. 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 $1,000,000 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 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 line item 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. Additionally, income is accrued on certain policies that have reached the minimum floor rate of return. This guaranteed portion of income is not added to the cash surrender value of the policy until the policy anniversary date and is reported in other assets on the Consolidated Balance Sheets.

### INTANGIBLE ASSETS:

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. The Company tests goodwill for impairment 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 excluded for earnings per share purposes. Options to purchase 139,759, 12,000, and 5,000 shares of common stock were outstanding during 2020, 2019 and 2018, respectively, but were not included in the computation of diluted earnings per common share because to do so would be anti-dilutive. Exercise prices of anti-dilutive options to purchase common stock outstanding were $3.18-$4.22, $4.19-$4.22, and $4.22 during 2020, 2019 and 2018, respectively.

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | |
| **Numerator:** | | | |
| Net income | **$ 4,598** | $ 6,028 | $ 7,768 |
| **Denominator:** | | | |
| Weighted average common shares outstanding (basic) | **17,053** | 17,359 | 17,933 |
| Effect of stock options | **10** | 81 | 104 |
| Weighted average common shares outstanding (diluted) | **17,063** | 17,440 | 18,037 |
| **Earnings per common share:** | | | |
| Basic | **$ 0.27** | $ 0.35 | $ 0.43 |
| Diluted | **0.27** | 0.35 | 0.43 |

### 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 or Black-Scholes option pricing model and the expense is recognized ratably over the service period. Forfeitures are recognized as they occur. See Note 19 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 both money market funds and commercial paper. The Company made $315,000 in income tax payments in 2020; $785,000 in 2019; and $875,000 in 2018. The Company had non-cash transfers to other real estate owned (OREO) in the amounts of $40,000 in 2020; $75,000 in 2019; and $166,000 in 2018. During 2020, the Company entered into two new financing leases, one related to office equipment and the other to a branch location, and recorded a right-of-use asset and lease liability of $149,000. As a result of the adoption of ASU 2016-02, *Leases (Topic 842)* as of January 1, 2019, the Company had non-cash transactions associated with the recognition of the right-of-use assets and lease liabilities. Specifically, the Company recognized a right-of-use asset and lease liability of $932,000 related to operating leases and a right-of-use asset and lease liability of $3.3 million related to financing leases. In addition, as a result of the adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, the Company had a non-cash transaction in the amount of $640,000 associated with the recognition of a receivable for wealth management fees as of December 31, 2019. 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 $11,040,000 in 2020; $13,779,000 in 2019; and $11,298,000 in 2018.

**INCOME TAXES:**

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

**INTEREST RATE CONTRACTS:**

The Company recognizes all derivatives as either assets or liabilities on the Consolidated Balance Sheets and measures those instruments at fair value. For derivatives designated as fair value hedges, changes in the fair value of the derivative and hedged item related to the hedged risk are recognized in earnings. Changes in fair value of derivatives designated and accounted as cash flow hedges, to the extent they are effective as hedges, are recorded in “Other Comprehensive Income,” net of deferred taxes and are subsequently 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. Additionally, pension expense can also be impacted by settlement accounting charges if the amount of employees selected lump sum distributions exceed the total amount of service and interest component costs of the net periodic pension cost in a particular year.

The service cost component of net periodic benefit cost is 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 is 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. Management believes this methodology is an appropriate 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.

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.

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

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 affected 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. 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.

In November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. This update defers the effective date of ASU 2016-13 for SEC filers that are eligible to be smaller reporting companies, non-SEC filers, and all other companies to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company, as a smaller reporting company, has adopted this ASU and continues to evaluate the impact that ASU 2016-13 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 ASU 2016-13. 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.

In January 2020, the FASB issued ASU 2020-4, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, March 2020*, to provide temporary optional expedients and exceptions to the US GAAP guidance on contract modifications to ease the financial reporting burdens of the expected market transition from LIBOR to alternative reference rates, such as Secured Overnight Financing Rate. Entities can elect not to apply certain modification accounting requirements to contracts affected by what the guidance calls reference rate reform, if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. The amendments in this ASU are effective for all entities upon issuance through December 31, 2022. The Company has identified its LIBOR exposure across product categories and is analyzing the risks associated with the LIBOR transition. However, it is too early to predict whether a new rate index replacement and the adoption of this ASU will have a material impact on the Company's financial statements.

## 3. REVENUE RECOGNITION

ASU 2014-09, *Revenue from Contracts with Customers – Topic* 606, requires the 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. Management determined that the primary sources of revenue associated with financial instruments, including interest and fee income on loans and interest on 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. These sources of revenue cumulatively comprise 79.7% of the total revenue of the Company.

Non-interest 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. Due to this delay in payment, a receivable of $825,000 has been established as of December 31, 2020 and is included in other assets on the Consolidated Balance Sheets in order to properly recognize the revenue earned but not yet received. 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, ATM and VISA debit card fees, 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 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 Company offers ATM and VISA debit cards to deposit account holders which allows our customers to access their account electronically at ATMs and POS terminals.

Fees related to ATM and VISA debit card transactions are recognized when the transactions are completed and the Company has satisfied it performance obligation.

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, 2020, 2019, and 2018 (in thousands).

| | AT DECEMBER 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| Non-interest income: | | | |
| In-scope of Topic 606 | | | |
| Wealth management fees | **$ 10,212** | $ 9,730 | $ 9,659 |
| Service charges on deposit accounts | **903** | 1,271 | 1,420 |
| Other | **1,708** | 1,759 | 1,720 |
| Non-interest income (in-scope of topic 606) | **12,823** | 12,760 | 12,799 |
| Non-interest income (out-of-scope of topic 606) | **3,452** | 2,013 | 1,425 |
| Total non-interest income | **$ 16,275** | $ 14,773 | $ 14,224 |

## 4. CASH AND DUE FROM DEPOSITORY INSTITUTIONS

The Federal Reserve reduced reserve requirements to zero as of March 26, 2020. As of December 31, 2019, required federal reserves of $3.0 million were included in “Cash and due from depository institutions” for facilitating the implementation of monetary policy by the Federal Reserve System. Such required reserves were computed by applying prescribed ratios to the classes of average deposit balances. They were held in the form of vault cash and a depository amount held with the Federal Reserve Bank.

## 5. INVESTMENT SECURITIES

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

Investment securities available for sale:

| | DECEMBER 31, 2020 | | | |
|---|---|---|---|---|
| | COST BASIS | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
| | (IN THOUSANDS) | | | |
| U.S. Agency | **$ 2,971** | **$ 181** | **$ —** | **$ 3,152** |
| U.S. Agency mortgage-backed securities | **65,398** | **2,533** | **(18)** | **67,913** |
| Municipal | **19,000** | **1,348** | **—** | **20,348** |
| Corporate bonds | **52,315** | **666** | **(229)** | **52,752** |
| Total | **$ 139,684** | **$ 4,728** | **$ (247)** | **$ 144,165** |

Investment securities held to maturity:

| | DECEMBER 31, 2020 | | | |
|---|---|---|---|---|
| | COST BASIS | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
| | (IN THOUSANDS) | | | |
| U.S. Agency mortgage-backed securities | **$ 8,119** | **$ 369** | **$ —** | **$ 8,488** |
| Municipal | **30,076** | **2,455** | **(49)** | **32,482** |
| Corporate bonds and other securities | **6,027** | **113** | **(4)** | **6,136** |
| Total | **$ 44,222** | **$ 2,937** | **$ (53)** | **$ 47,106** |

Investment securities available for sale:

| | DECEMBER 31, 2019 | | | |
|---|---|---|---|---|
| | COST BASIS | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
| | (IN THOUSANDS) | | | |
| U.S. Agency | $ 5,084 | $ 32 | $ — | $ 5,116 |
| U.S. Agency mortgage-backed securities | 80,046 | 1,681 | (94) | 81,633 |
| Municipal | 14,678 | 509 | (17) | 15,170 |
| Corporate bonds | 39,769 | 342 | (281) | 39,830 |
| Total | $ 139,577 | $ 2,564 | $ (392) | $ 141,749 |

Investment securities held to maturity:

| | DECEMBER 31, 2019 | | | |
|---|---|---|---|---|
| | COST BASIS | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
| | (IN THOUSANDS) | | | |
| U.S. Agency mortgage-backed securities | $ 9,466 | $ 251 | $ (4) | $ 9,713 |
| Municipal | 24,438 | 941 | (53) | 25,326 |
| Corporate bonds and other securities | 6,032 | 58 | (47) | 6,043 |
| Total | $ 39,936 | $ 1,250 | $ (104) | $ 41,082 |

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, 2020, 42.2% of the portfolio was rated AAA as compared to 53.4% at December 31, 2019. Approximately 15.2% and 9.1% of the portfolio was rated below A or unrated on December 31, 2020 and 2019, respectively. The Company and its subsidiaries, collectively, did not hold securities of any single issuer, excluding U.S. agencies, that exceeded 10% of shareholders' equity at December 31, 2020.

The book value of securities, both available for sale and held to maturity, pledged to secure public and trust deposits was $111,694,000 at December 31, 2020 and $117,076,000 at December 31, 2019.

The Company sold no investment securities during 2020 and realized $118,000 of gross investment security gains in 2019 and $15,000 of gross investment security gains and $454,000 of gross investment security losses in 2018. On a net basis, the realized gain for 2019 was $93,000 after factoring in tax expense of $25,000 and the realized loss for 2018 was $347,000 after factoring in a tax benefit of $92,000. Proceeds from sales of investment securities available for sale were $3.4 million for 2019 and $9.5 million for 2018.

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, 2020. 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 2.11 years. The weighted average expected maturity for available for sale securities at December 31, 2020 for U.S. agency, U.S. agency mortgage-backed, corporate bond, and municipal securities was 11.28, 3.66, 4.38, and 4.99 years, respectively. The weighted average expected maturity for held to maturity securities at December 31, 2020 for U.S. agency mortgage-backed, corporate bond/other securities, and municipal securities 4.52, 2.40, and 6.21 years, respectively.

Investment securities available for sale:

| | AT DECEMBER 31, 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | U. S. AGENCY | | MUNICIPAL | | CORPORATE BONDS | | U.S. AGENCY MORTGAGE-BACKED SECURITIES | | TOTAL INVESTMENT SECURITIES AVAILABLE FOR SALE | |
| | (IN THOUSANDS, EXCEPT YIELDS) | | | | | | | | | |
| COST BASIS | | | | | | | | | | |
| Within 1 year | $ — | — % | $ 598 | 2.14 % | $ 4,459 | 2.64 % | $ — | — % | $ 5,057 | 2.58 % |
| After 1 year but within 5 years | — | — | 7,104 | 2.76 | 15,119 | 2.70 | 2,332 | 3.18 | 24,555 | 2.76 |
| After 5 years but within 10 years | 741 | 2.69 | 11,298 | 3.01 | 32,087 | 4.07 | 5,958 | 2.60 | 50,084 | 3.62 |
| After 10 years but within 15 years | — | — | — | — | 650 | 3.92 | 15,481 | 2.70 | 16,131 | 2.75 |
| Over 15 years | 2,230 | 2.68 | — | — | — | — | 41,627 | 2.31 | 43,857 | 2.33 |
| Total | $ 2,971 | 2.68 | $ 19,000 | 2.89 | $ 52,315 | 3.55 | $ 65,398 | 2.46 | $ 139,684 | 2.93 |
| FAIR VALUE | | | | | | | | | | |
| Within 1 year | $ — | | $ 601 | | $ 4,487 | | $ — | | $ 5,088 | |
| After 1 year but within 5 years | — | | 7,483 | | 15,224 | | 2,457 | | 25,164 | |
| After 5 years but within 10 years | 780 | | 12,264 | | 32,389 | | 6,235 | | 51,668 | |
| After 10 years but within 15 years | — | | — | | 652 | | 16,269 | | 16,921 | |
| Over 15 years | 2,372 | | — | | — | | 42,952 | | 45,324 | |
| Total | $ 3,152 | | $ 20,348 | | $ 52,752 | | $ 67,913 | | $ 144,165 | |

Investment securities held to maturity:

| | AT DECEMBER 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | U.S. AGENCY MORTGAGE-BACKED SECURITIES | | MUNICIPAL | | CORPORATE BONDS AND OTHER | | TOTAL INVESTMENT SECURITIES HELD TO MATURITY | |
| | (IN THOUSANDS, EXCEPT YIELDS) | | | | | | | |
| COST BASIS | | | | | | | | |
| Within 1 year | $ — | — % | $ 400 | 2.84 % | $ 3,000 | 2.95 % | $ 3,400 | 2.94 % |
| After 1 year but within 5 years | 1,068 | 2.83 | 4,080 | 3.25 | 3,027 | 3.47 | 8,175 | 3.28 |
| After 5 years but within 10 years | — | — | 18,768 | 3.38 | — | — | 18,768 | 3.38 |
| After 10 years but within 15 years | 1,718 | 3.55 | 6,513 | 3.01 | — | — | 8,231 | 3.12 |
| Over 15 years | 5,333 | 2.01 | 315 | 3.50 | — | — | 5,648 | 2.09 |
| Total | $8,119 | 2.44 | $30,076 | 3.28 | $ 6,027 | 3.21 | $ 44,222 | 3.11 |
| FAIR VALUE | | | | | | | | |
| Within 1 year | $ — | | $ 403 | | $ 2,998 | | $ 3,401 | |
| After 1 year but within 5 years | 1,132 | | 4,383 | | 3,138 | | 8,653 | |
| After 5 years but within 10 years | — | | 20,478 | | — | | 20,478 | |
| After 10 years but within 15 years | 1,856 | | 6,874 | | — | | 8,730 | |
| Over 15 years | 5,500 | | 344 | | — | | 5,844 | |
| Total | $8,488 | | $32,482 | | $ 6,136 | | $ 47,106 | |

The following table presents information concerning investments with unrealized losses as of December 31, 2020 (in thousands):

Total investment securities:

| | DECEMBER 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | LESS THAN 12 MONTHS | | 12 MONTHS OR LONGER | | TOTAL | |
| | FAIR VALUE | UNREALIZED LOSSES | FAIR VALUE | UNREALIZED LOSSES | FAIR VALUE | UNREALIZED LOSSES |
| U.S. Agency | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** |
| U.S. Agency mortgage-backed securities | **6,394** | **(17)** | **123** | **(1)** | **6,517** | **(18)** |
| Municipal | **—** | **—** | **751** | **(49)** | **751** | **(49)** |
| Corporate bonds and other securities | **13,083** | **(162)** | **7,929** | **(71)** | **21,012** | **(233)** |
| Total | **$ 19,477** | **$ (179)** | **$ 8,803** | **$ (121)** | **$ 28,280** | **$ (300)** |

The following table presents information concerning investments with unrealized losses as of December 31, 2019 (in thousands):

Total investment securities:

| | DECEMBER 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | LESS THAN 12 MONTHS | | 12 MONTHS OR LONGER | | TOTAL | |
| | FAIR VALUE | UNREALIZED LOSSES | FAIR VALUE | UNREALIZED LOSSES | FAIR VALUE | UNREALIZED LOSSES |
| U.S. Agency | $ — | $ — | $ — | $ — | $ — | $ — |
| U.S. Agency mortgage-backed securities | 7,084 | (23) | 8,562 | (75) | 15,646 | (98) |
| Municipal | 2,269 | (18) | 1,123 | (52) | 3,392 | (70) |
| Corporate bonds and other securities | 7,797 | (85) | 11,783 | (243) | 19,580 | (328) |
| Total | $ 17,150 | $ (126) | $ 21,468 | $ (370) | $ 38,618 | $ (496) |

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 41 positions that are considered temporarily impaired at December 31, 2020. 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.

The interest rate environment and market yields can also have a significant impact on the yield earned on mortgage-backed securities (MBS). Prepayment speed assumptions are an important factor to consider when evaluating the returns on an MBS. Generally, as interest rates decline, borrowers have more incentive to refinance into a lower rate, so prepayments will rise. Conversely, as interest rates increase, prepayments will decline. When an MBS is purchased at a premium, the yield will decrease as prepayments increase and the yield will increase as prepayments decrease. As of December 31, 2020, the Company had low premium risk as the book value of our mortgage-backed securities purchased at a premium was only 101.2% of the par value.

As of December 31, 2020 and 2019, the Company reported $443,000 and $366,000, respectively, of equity securities within other assets on the Consolidated Balance Sheets. These equity securities are held within a nonqualified deferred compensation plan in which a select group of executives of the Company can participate. An eligible executive can defer a certain percentage of their current salary to be placed into the plan and held within a rabbi trust. The assets of the rabbi trust are invested in various publicly listed mutual funds. The gain or loss on the equity securities (both realized and unrealized) is reported within other income on the Consolidated Statements of Operations. The realized gain on equity securities was $2,000 and $13,000 during 2020 and 2019, respectively. The unrealized gain was $3,000 in 2020 and the unrealized loss was $5,000 in 2019. Additionally, the Company has recognized a deferred compensation liability, which is equal to the balance of the equity securities and is reported within other liabilities on the Consolidated Balance Sheets.

## 6. LOANS

The loan portfolio of the Company consisted of the following:

| | AT DECEMBER 31, | |
|---|---|---|
| | **2020** | **2019** |
| | **(IN THOUSANDS)** | |
| Commercial: | | |
| Commercial and industrial | **$ 151,162** | $ 173,922 |
| Paycheck Protection Program (PPP) | **58,344** | — |
| Commercial loans secured by owner occupied real estate | **95,486** | 91,655 |
| Commercial loans secured by non-owner occupied real estate | **400,751** | 363,635 |
| Real estate − residential mortgage | **249,989** | 235,239 |
| Consumer | **16,363** | 18,255 |
| Loans, net of unearned income | **$ 972,095** | $ 882,706 |

Loan balances at December 31, 2020 and 2019 are net of unearned income of $1,202,000 and $384,000, respectively. The unearned income balance at December 31, 2020 includes $755,000 of unrecognized fee income from PPP loan originations. Real estate construction loans comprised 7.0% and 4.9% of total loans net of unearned income at December 31, 2020 and 2019, 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, 2020 and 2019, 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 $615,000 and $544,000 at December 31, 2020 and 2019, respectively.

The COVID-19 pandemic is a fluid situation and continues to evolve, impacting the way many businesses operate. The pandemic and its associated impacts on trade (including supply chains and export levels), travel, employee productivity, unemployment, and consumer spending has resulted in less economic activity and significant volatility and disruption. Certain loans within our commercial and commercial real estate portfolios have been disproportionately adversely affected by the pandemic. Due to mandatory lockdowns and travel restrictions, certain industries, such as hospitality, travel, food service and restaurants and bars, have suffered as a result of COVID-19. The following table provides information regarding our potential COVID-19 risk concentrations for commercial and commercial real estate loans by industry type at December 31, 2020 (in thousands).

| | Commercial and industrial | Paycheck Protection Program | Commercial loans secured by owner occupied real estate | Commercial loans secured by non-owner occupied real estate | Total |
|---|---|---|---|---|---|
| 1-4 unit residential | $ 1,450 | $ — | $ 105 | $ 6,139 | $ 7,694 |
| Multifamily/apartments/student housing | — | — | 469 | 66,879 | 67,348 |
| Office | 33,525 | 6,872 | 10,095 | 37,164 | 87,656 |
| Retail | 8,080 | 1,542 | 21,180 | 124,325 | 155,127 |
| Industrial/manufacturing/warehouse | 87,021 | 26,222 | 18,255 | 38,814 | 170,312 |
| Hotels | 329 | 837 | — | 41,779 | 42,945 |
| Eating and drinking places | 769 | 13,479 | 4,390 | 1,925 | 20,563 |
| Amusement and recreation | 190 | 46 | 3,307 | 38 | 3,581 |
| Mixed use | — | — | 2,411 | 65,585 | 67,996 |
| Other | 19,798 | 9,346 | 35,274 | 18,103 | 82,521 |
| Total | $ 151,162 | $ 58,344 | $ 95,486 | $ 400,751 | $ 705,743 |

Paycheck Protection Program

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020, and provides emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the Small Business Administration (SBA) to temporarily guarantee loans under a new 7(a) program called the Paycheck Protection Program (PPP). As a qualified SBA lender, the Company was automatically authorized to originate PPP loans.

An eligible business could apply for a PPP loan up to the lesser of: (1) 2.5 times its average monthly "payroll costs;" or (2) $10.0 million. PPP loans have: (a) an interest rate of 1.0%; (b) a two-year (if originated prior to June 5, 2020) or five-year (if originated after June 5, 2020) loan term to maturity; and (c) principal and interest payments deferred for six months from the date of disbursement. The SBA will guarantee 100% of the PPP loans made to eligible borrowers pursuant to standards as defined by the SBA. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and at least 60% of the loan proceeds are used for payroll expenses with the remaining loan proceeds being used for other qualifying expenses such as interest on mortgages, rent, and utilities.

As of December 31, 2020, the Company had 364 PPP loans outstanding totaling $58.3 million and has recorded a total of $1.9 million of processing fee income and interest income from PPP lending activity. Also, there is approximately $755,000 of PPP processing fees that will be amortized into income over the time period that the loans remain on our balancec sheet or until the PPP loan is forgiven at which time the remaining fee will be recognized immediately as income.

## 7. 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, 2019 | CHARGE-OFFS | RECOVERIES | PROVISION (CREDIT) | BALANCE AT DECEMBER 31, 2020 |
|---|---|---|---|---|---|
| Commercial | **$ 3,951** | **$ (111)** | **$ 4** | **$ (372)** | **$ 3,472** |
| Commercial loans secured by non-owner occupied real estate | **3,119** | **—** | **44** | **2,210** | **5,373** |
| Real estate – residential mortgage | **1,159** | **(233)** | **62** | **304** | **1,292** |
| Consumer | **126** | **(143)** | **68** | **64** | **115** |
| Allocation for general risk | **924** | **—** | **—** | **169** | **1,093** |
| Total | **$ 9,279** | **$ (487)** | **$ 178** | **$ 2,375** | **$ 11,345** |

| | BALANCE AT DECEMBER 31, 2018 | CHARGE-OFFS | RECOVERIES | PROVISION (CREDIT) | BALANCE AT DECEMBER 31, 2019 |
|---|---|---|---|---|---|
| Commercial | $ 3,057 | $ (9) | $ 22 | $ 881 | $ 3,951 |
| Commercial loans secured by non-owner occupied real estate | 3,389 | (63) | 48 | (255) | 3,119 |
| Real estate – residential mortgage | 1,235 | (98) | 118 | (96) | 1,159 |
| Consumer | 127 | (262) | 52 | 209 | 126 |
| Allocation for general risk | 863 | — | — | 61 | 924 |
| Total | $ 8,671 | $ (432) | $ 240 | $ 800 | $ 9,279 |

| | 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 | $ 10,214 | $ (1,205) | $ 262 | $ (600) | $ 8,671 |

For 2020, the Company recorded a $2,375,000 provision expense for loan losses compared to an $800,000 provision expense in 2019. The Company continues to build the allowance for loan losses given the overall economic climate and the uncertainty that exists because of the COVID-19 pandemic. The 2020 provision reflects managements strengthening certain qualitative factors within the allowance for loan losses calculation and downgrades of loan relationships that are reflective of the industries that have been especially negatively impacted from the pandemic, primarily the hospitality industry, and are demonstrating a slow pace of recovery. The effect of these downgrades was an increase in the allowance for the commercial loans secured by non-owner occupied real estate portfolio. The recovery efforts of many of these borrowers experiencing a downgrade stalled during the fourth quarter of 2020 due to the rise in COVID cases which caused additional safety measures and restrictions to be put in place on their businesses. While these borrowers need additional time to recover, we remain encouraged by their efforts to work through the pandemic and signs of improvement in their operations. The decrease in the allowance balance for the commercial loan portfolio is the result of two substantial commercial loans which were previously classified as substandard being upgraded. In addtion, the growth in the allowance balance for residential mortgage loans is the result of the increased origination activity experienced within this portfolio during 2020 given the lower interest rate environment. It should be noted that the 100% SBA guarantee on PPP loans minimizes the level of credit risk associated with the loans. As a result, such loans are assigned a 0% risk weight for purposes of calculating the Bank's risk-based capital ratios. Therefore, it was deemed appropriate to not allocate any portion of the loan loss reserve for the PPP loans.

The Company experienced net loan charge-offs of $309,000, or 0.03% of total loans, in 2020 compared to net loan charge-offs of $192,000, or 0.02% of total loans, in 2019. As a result of the provision expense sharply exceeding net loan charge-offs, the balance in the allowance for loan losses increased by over $2 million in 2020. Overall, non-performing assets totaled $3.3 million, or 0.34% of total loans, at December 31, 2020. The allowance for loan losses provided 341% coverage of non-performing assets, and 1.16% of total loans, at December 31, 2020, compared to 397% coverage of non-performing assets, and 1.05% of total loans, at December 31, 2019. Note that the reserve coverage of total loans, excluding PPP loans, is 1.23% (non-GAAP) at December 31, 2020. See the reconciliation of the non-GAAP measure of the reserve coverage of total loans, excluding PPP loans, within the Allowance and Provision for Loan Losses section of the MD&A.

For 2019, the Company recorded an $800,000 provision expense for loan losses compared to a $600,000 provision recovery for 2018, or an increase of $1.4 million between years. The 2019 provision expense reflects the growth within the loan portfolio and the increase in classified loans. Specifically, the 2019 provision expense within the commercial segment was driven by the rating downgrade of a $6.5 million performing commercial and industrial loan to substandard as a result of the unexpected death of a borrower. This downgrade caused a $675,000 increase in the fourth quarter 2019 provision expense. This rating action was prudent due to the inherent uncertainties associated with a large estate liquidation. Additionally, the 2019 provision credit within commercial loans secured by non-owner occupied real estate was driven, primarily, by a relaxation of the economic qualitative factors applied to the Pass rated portion of this loan segment. The Company experienced net loan charge-offs of only $192,000, or 0.02% of total loans, in 2019 compared to net loan charge-offs of $943,000, or 0.11% of total loans, in 2018. Nonperforming assets totaled $2.3 million, or only 0.26% of total loans, at December 31, 2019.

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

| | AT DECEMBER 31, 2020 | | | | |
|---|---|---|---|---|---|
| **Loans:** | **COMMERCIAL** | **COMMERCIAL LOANS SECURED BY NON-OWNER OCCUPIED REAL ESTATE** | **REAL ESTATE − RESIDENTIAL MORTGAGE** | **CONSUMER** | **TOTAL** |
| | (IN THOUSANDS) | | | | |
| Individually evaluated for impairment | **$ 847** | **$ 8** | **$ —** | **$ —** | **$ 855** |
| Collectively evaluated for impairment | **304,145** | **400,743** | **249,989** | **16,363** | **971,240** |
| Total loans | **$ 304,992** | **$ 400,751** | **$ 249,989** | **$ 16,363** | **$ 972,095** |

| | AT DECEMBER 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| **Allowance for loan losses:** | **COMMERCIAL** | **COMMERCIAL LOANS SECURED BY NON-OWNER OCCUPIED REAL ESTATE** | **REAL ESTATE − RESIDENTIAL MORTGAGE** | **CONSUMER** | **ALLOCATION FOR GENERAL RISK** | **TOTAL** |
| | (IN THOUSANDS) | | | | | |
| Specific reserve allocation | **$ 96** | **$ 8** | **$ —** | **$ —** | **$ —** | **$ 104** |
| General reserve allocation | **3,376** | **5,365** | **1,292** | **115** | **1,093** | **11,241** |
| Total allowance for loan losses | **$ 3,472** | **$ 5,373** | **$ 1,292** | **$ 115** | **$ 1,093** | **$ 11,345** |

| | AT DECEMBER 31, 2019 | | | | |
|---|---|---|---|---|---|
| **Loans:** | **COMMERCIAL** | **COMMERCIAL LOANS SECURED BY NON-OWNER OCCUPIED REAL ESTATE** | **REAL ESTATE − RESIDENTIAL MORTGAGE** | **CONSUMER** | **TOTAL** |
| | (IN THOUSANDS) | | | | |
| Individually evaluated for impairment | $ 816 | $ 8 | $ — | $ — | $ 824 |
| Collectively evaluated for impairment | 264,761 | 363,627 | 235,239 | 18,255 | 881,882 |
| Total loans | $ 265,577 | $ 363,635 | $ 235,239 | $ 18,255 | $ 882,706 |

| Allowance for loan losses: | COMMERCIAL | COMMERCIAL LOANS SECURED BY NON-OWNER OCCUPIED REAL ESTATE | REAL ESTATE − RESIDENTIAL MORTGAGE | CONSUMER | ALLOCATION FOR GENERAL RISK | TOTAL |
|---|---|---|---|---|---|---|
| | AT DECEMBER 31, 2019 | | (IN THOUSANDS) | | | |
| Specific reserve allocation | $ 84 | $ 8 | $ — | $ — | $ — | $ 92 |
| General reserve allocation | 3,867 | 3,111 | 1,159 | 126 | 924 | 9,187 |
| Total allowance for loan losses | $ 3,951 | $ 3,119 | $ 1,159 | $ 126 | $ 924 | $ 9,279 |

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 that is in nonaccrual status or classified as a Troubled Debt Restructure (TDR). In addition, consumer and residential mortgage loans with a balance of $150,000 or more are evaluated for impairment. 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.

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 either the discounted cash flows or the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

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

When reviewing an appraisal associated with an existing 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.

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, 2020 | | | | |
|---|---|---|---|---|---|
| | 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 | **$ 847** | **$ 96** | **$ —** | **$ 847** | **$ 850** |
| Commercial loans secured by non-owner occupied real estate | **8** | **8** | **—** | **8** | **30** |
| Total impaired loans | **$ 855** | **$ 104** | **$ —** | **$ 855** | **$ 880** |

| | AT DECEMBER 31, 2019 | | | | |
|---|---|---|---|---|---|
| | 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 | 816 | $ 84 | $ — | $ 816 | $ 816 |
| Commercial loans secured by non-owner occupied real estate | $ 8 | $ 8 | $ — | $ 8 | $ 30 |
| Total impaired loans | $ 824 | $ 92 | $ — | $ 824 | $ 846 |

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

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | (IN THOUSANDS) | | |
| Average impaired balance: | | | |
| Commercial | **$ 839** | $ 597 | $ 228 |
| Commercial loans secured by non-owner occupied real estate | **8** | 10 | 12 |
| Average investment in impaired loans | **$ 847** | $ 607 | $ 240 |
| Interest income recognized: | | | |
| Commercial | **$ 38** | $ 30 | $ — |
| Commercial loans secured by non-owner occupied real estate | **—** | — | — |
| Interest income recognized on a cash basis on impaired loans | **$ 38** | $ 30 | $ — |

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

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process, which dictates that, at a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of $1,000,000 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 2020 required review of a minimum of 40% 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, 2020 | | | | |
|---|---|---|---|---|---|
| | PASS | SPECIAL MENTION | SUBSTANDARD | DOUBTFUL | TOTAL |
| | | | (IN THOUSANDS) | | |
| Commercial and industrial | **$ 134,186** | **$ 13,722** | **$ 3,254** | **$ —** | **$ 151,162** |
| Paycheck Protection Program (PPP) | **58,344** | **—** | **—** | **—** | **58,344** |
| Commercial loans secured by owner occupied real estate | **92,189** | **2,154** | **1,143** | **—** | **95,486** |
| Commercial loans secured by non-owner occupied real estate | **371,815** | **23,980** | **4,948** | **8** | **400,751** |
| Total | **$ 656,534** | **$ 39,856** | **$ 9,345** | **$ 8** | **$ 705,743** |

| | AT DECEMBER 31, 2019 | | | | |
|---|---|---|---|---|---|
| | PASS | SPECIAL MENTION | SUBSTANDARD | DOUBTFUL | TOTAL |
| | | | (IN THOUSANDS) | | |
| Commercial and industrial | $ 161,147 | $ 853 | $ 11,922 | $ — | $ 173,922 |
| Commercial loans secured by owner occupied real estate | 88,942 | 1,384 | 1,329 | — | 91,655 |
| Commercial loans secured by non-owner occupied real estate | 362,027 | — | 1,600 | 8 | 363,635 |
| Total | $ 612,116 | $ 2,237 | $ 14,851 | $ 8 | $ 629,212 |

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.

| | AT DECEMBER 31, 2020 | | |
|---|---|---|---|
| | PERFORMING | NON-PERFORMING | TOTAL |
| | | (IN THOUSANDS) | |
| Real estate – residential mortgage | **$ 247,520** | **$ 2,469** | **$ 249,989** |
| Consumer | **16,356** | **7** | **16,363** |
| Total | **$ 263,876** | **$ 2,476** | **$ 266,352** |

| | AT DECEMBER 31, 2019 | | |
|---|---|---|---|
| | PERFORMING | NON-PERFORMING | TOTAL |
| | | (IN THOUSANDS) | |
| Real estate – residential mortgage | $ 233,760 | $ 1,479 | $ 235,239 |
| Consumer | 18,255 | — | 18,255 |
| Total | $ 252,015 | $ 1,479 | $ 253,494 |

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 non-accrual loans.

| | AT DECEMBER 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | CURRENT | 30 – 59 DAYS PAST DUE | 60 – 89 DAYS PAST DUE | 90 DAYS PAST DUE | TOTAL PAST DUE | TOTAL LOANS | 90 DAYS PAST DUE AND STILL ACCRUING |
| | (IN THOUSANDS) | | | | | | |
| Commercial and industrial | **$ 148,023** | **$ 536** | **$ 2,603** | **$ —** | **$ 3,139** | **$ 151,162** | **$ —** |
| Paycheck Protection Program (PPP) | **58,344** | **—** | **—** | **—** | **—** | **58,344** | **$ —** |
| Commercial loans secured by owner occupied real estate | **95,486** | **—** | **—** | **—** | **—** | **95,486** | **—** |
| Commercial loans secured by non-owner occupied real estate | **399,850** | **230** | **671** | **—** | **901** | **400,751** | **—** |
| Real estate – residential mortgage | **246,279** | **776** | **1,178** | **1,756** | **3,710** | **249,989** | **—** |
| Consumer | **16,274** | **82** | **—** | **7** | **89** | **16,363** | **—** |
| Total | **$ 964,256** | **$ 1,624** | **$ 4,452** | **$ 1,763** | **$ 7,839** | **$ 972,095** | **$ —** |

| | AT DECEMBER 31, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | CURRENT | 30 – 59 DAYS PAST DUE | 60 – 89 DAYS PAST DUE | 90 DAYS PAST DUE | TOTAL PAST DUE | TOTAL LOANS | 90 DAYS PAST DUE AND STILL ACCRUING |
| | (IN THOUSANDS) | | | | | | |
| Commercial and industrial | $ 173,922 | $ — | $ — | $ — | $ — | $ 173,922 | $ — |
| Commercial loans secured by owner occupied real estate | 91,538 | 117 | — | — | 117 | 91,655 | — |
| Commercial loans secured by non-owner occupied real estate | 363,635 | — | — | — | — | 363,635 | — |
| Real estate – residential mortgage | 231,022 | 2,331 | 864 | 1,022 | 4,217 | 235,239 | — |
| Consumer | 18,190 | 42 | 23 | — | 65 | 18,255 | — |
| Total | $ 878,307 | $ 2,490 | $ 887 | $ 1,022 | $ 4,399 | $ 882,706 | $ — |

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

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

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

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

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

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

## 8. 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, | |
|---|---|---|
| | 2020 | 2019 |
| | (IN THOUSANDS, EXCEPT PERCENTAGES) | |
| Non-accrual loans: | | |
| Commercial and industrial | **$ 16** | $ — |
| Commercial loans secured by non-owner occupied real estate | **8** | 8 |
| Real estate – residential mortgage | **2,469** | 1,479 |
| Consumer | **7** | — |
| Total | **2,500** | 1,487 |
| Other real estate owned: | | |
| Real estate – residential mortgage | **—** | 37 |
| Total | **—** | 37 |
| TDR's not in non-accrual: | | |
| Commercial and industrial | **831** | 815 |
| Total | **831** | 815 |
| Total non-performing assets including TDR | **$ 3,331** | $ 2,339 |
| Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned | **0.34 %** | 0.26 % |

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); or
- 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 \$103,000 and \$92,000 as of December 31, 2020 and 2019, respectively.

The following table details the loans modified in TDRs during the year ended December 31, 2020 (dollars in thousands).

| Loans in accrual status | # of Loans | Current Balance | Concession Granted |
|---|---|---|---|
| Commercial and industrial | 1 | $ 750 | Subsequent modification of a TDR - Extension of maturity date with a below market interest rate |
| Commercial and industrial | 1 | 47 | Extension of maturity date with a below market interest rate |

The following table details the loans modified in TDRs during the year ended December 31, 2019 (dollars in thousands).

| Loans in accrual status | # of Loans | Current Balance | Concession Granted |
|---|---|---|---|
| Commercial and industrial | 2 | $ 816 | Extension of maturity date with a below market interest rate |
| **Loans in non-accrual status** | | | |
| Commercial loans secured by non-owner occupied real estate | 1 | $ 8 | Extension of maturity date |

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, 2020, 2019 or 2018, 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.

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, 2020, there were no residential real estate foreclosed assets included in other assets. As of December 31, 2019, a total of $37,000 of residential real estate foreclosed assets were included in other assets. As of December 31, 2020, the Company had initiated formal foreclosure procedures on $119,000 of consumer residential mortgages.

Loan Modifications Related to COVID-19

Under section 4013 of the CARES Act, loans less than 30 days past due as of December 31, 2019 will be considered current for COVID-19 modifications. A financial institution can then suspend the requirements under GAAP for loan modifications related to COVID-19 that would otherwise be categorized as a TDR, and suspend any determination of a loan modified as a result of COVID-19 as being a TDR, including the requirement to determine impairment for accounting purposes and reporting the loan as past due. Financial institutions wishing to utilize this authority must make a policy election, which applies to any COVID-19 modification made between March 1, 2020 and the earlier of either December 31, 2020 or the 60th day after the end of the COVID-19 national emergency so long as the loan was current on payments as of December 31, 2019. The suspension of TDR identification and accounting triggered by the effects of the COVID-19 pandemic was extended by the Consolidated Appropriations Act, 2021, signed into law on December 27, 2020. The period established by Section 4013 of the CARES Act was extended to the earlier of January 1, 2022 or 60 days after the date on which the national COVID-19 emergency terminates. Additionally, the Financial Accounting Standards Board has confirmed that short-term modifications made on a good-faith basis in response to COVID-19 to loan customers who were current prior to any relief are not TDRs.

In response to the COVID-19 pandemic, the Company has prudently executed loan modifications for existing loan customers. The following table presents information comparing loans which were subject to a loan modification related to COVID-19, as of December 31, 2020 and September 30, 2020. Note that the percentage of outstanding loans presented below was calculated based on loan totals excluding PPP loans. Management believes that this method more accurately reflects the concentration of COVID-19 related modifications within the loan portfolio.

| | At December 31, 2020 | | At September 30, 2020 | |
|---|---|---|---|---|
| | Balance (in thousands) | % of Outstanding Non-PPP Loans | Balance (in thousands) | % of Outstanding Non-PPP Loans |
| CRE/Commercial | **$ 47,037** | **7.0 %** | $ 140,132 | 21.8 % |
| Home Equity/Consumer | **83** | **0.1** | 160 | 0.2 |
| Residential Mortgage | **1,943** | **1.3** | 4,069 | 2.9 |
| Total | **$ 49,063** | **5.3** | $ 144,361 | 16.4 |

The balance of loan modifications related to COVID-19 at December 31, 2020 represents a decrease of $95.3 million, or 66.0%, from the balance of loans modified for COVID-19 reported in the third quarter 2020 10-Q which totaled $144 million. As a result of these loan modifications, the Company has recorded $1.2 million of accrued interest income that has not been received as of December 31, 2020.

Requested modifications primarily consist of the deferral of principal and/or interest payments for a period of three to six months and maturity date extensions. The following table presents the composition of the types of payment relief that have been granted.

| | At December 31, 2020 | | At September 30, 2020 | |
|---|---|---|---|---|
| Type of Payment Relief | Number of Loans | Balance (in thousands) | Number of Loans | Balance (in thousands) |
| Interest only payments | **11** | **$ 26,900** | 67 | $ 74,680 |
| Complete payment deferrals | **59** | **22,163** | 127 | 69,681 |
| Total | **70** | **$ 49,063** | 194 | $ 144,361 |

Management is carefully monitoring asset quality with a particular focus on customers that have requested payment deferrals during this difficult economic time. As we reached the end of the initial deferral time periods, deferral extension requests were considered based upon the customer's needs and their impacted industry, borrower and guarantor capacity to service debt as well as issued regulatory guidance. At December 31, 2020, the COVID-19 related modifications within the commercial real estate and commercial loan portfolios are to 19 borrowers, most of which are borrowers who were granted a second loan payment deferral, with loans totaling approximately $47 million. In order to properly monitor the increased credit risk associated with the modified loans, the Asset Quality Task Force is meeting at least monthly to review these particular relationships, receiving input from the business lenders regarding their ongoing discussions with the borrowers.

## 9. PREMISES AND EQUIPMENT

An analysis of premises and equipment follows:

| | AT DECEMBER 31, 2020 | AT DECEMBER 31, 2019 |
|---|---|---|
| | (IN THOUSANDS) | |
| Land | **$ 1,198** | $ 1,198 |
| Premises | **28,070** | 27,711 |
| Furniture and equipment | **8,502** | 8,632 |
| Leasehold improvements | **1,174** | 1,174 |
| Total at cost | **38,944** | 38,715 |
| Less: Accumulated depreciation and amortization | **24,608** | 24,072 |
| Premises and equipment, net | **$ 14,336** | $ 14,643 |

The Company recorded depreciation and amortization expense of $1.6 million for 2020 and $1.5 million for 2019 and 2018.

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 $232,000, $218,000, and $221,000 for the years ended December 31, 2020, 2019, and 2018, respectively.

## 10. LEASE COMMITMENTS

The Company has operating and financing leases for several office locations and equipment. Several assumptions and judgments were made when applying the requirements of ASU 2016-02, *Leases (Topic 842)*, to the Company's lease commitments, including the allocation of consideration in the contracts between lease and non-lease components, determination of the lease term, and determination of the discount rate used in calculating the present value of the lease payments. See Note 1 for information on policy elections.

The following table presents the lease cost associated with both operating and financing leases for the years ended December 31, 2020 and 2019. Total rent expense recorded during the year ended December 31, 2018 was $415,000.

| | YEAR ENDED DECEMBER 31, 2020 | YEAR ENDED DECEMBER 31, 2019 |
|---|---|---|
| | (IN THOUSANDS) | |
| Lease cost | | |
| Financing lease cost: | | |
| Amortization of right-of-use asset | **$ 271** | $ 258 |
| Interest expense | **112** | 117 |
| Operating lease cost | **116** | 117 |
| Total lease cost | **$ 499** | $ 492 |

The following table presents the weighted-average remaining lease term and discount rate for the leases outstanding at December 31, 2020 and 2019.

| | AT DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | OPERATING | FINANCING | OPERATING | FINANCING |
| Weighted-average remaining term (years) | **11.4** | **16.0** | 11.9 | 17.1 |
| Weighted-average discount rate | **3.49 %** | **3.52 %** | 3.46 % | 3.60 % |

The following table presents the undiscounted cash flows due related to operating and financing leases as of December 31, 2020 and 2019, along with a reconciliation to the discounted amount recorded on the Consolidated Balance Sheets.

| DECEMBER 31, 2020 | OPERATING | FINANCING |
|---|---|---|
| | (IN THOUSANDS) | |
| Undiscounted cash flows due: | | |
| Within 1 year | **$ 120** | **$ 316** |
| After 1 year but within 2 years | **98** | **320** |
| After 2 years but within 3 years | **69** | **309** |
| After 3 years but within 4 years | **69** | **249** |
| After 4 years but within 5 years | **69** | **248** |
| After 5 years | **520** | **2,760** |
| Total undiscounted cash flows | **945** | **4,202** |
| Discount on cash flows | **(169)** | **(1,093)** |
| Total lease liabilities | **$ 776** | **$ 3,109** |

| DECEMBER 31, 2019 | OPERATING | FINANCING |
|---|---|---|
| | (IN THOUSANDS) | |
| Undiscounted cash flows due: | | |
| Within 1 year | $ 118 | $ 296 |
| After 1 year but within 2 years | 120 | 275 |
| After 2 years but within 3 years | 98 | 277 |
| After 3 years but within 4 years | 69 | 274 |
| After 4 years but within 5 years | 69 | 236 |
| After 5 years | 589 | 3,007 |
| Total undiscounted cash flows | 1,063 | 4,365 |
| Discount on cash flows | (198) | (1,202) |
| Total lease liabilities | $ 865 | $ 3,163 |

The Company leases approximately 1,049 square feet of office space within its headquarters building to a Director of the Company. The amount paid by this related party totaled $13,000 for the years ended December 31, 2020, 2019, and 2018 and is reported in net occupancy expense on the Consolidated Statements of Operations.

## 11. DEPOSITS

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

| | AT DECEMBER 31, 2020 | 2019 |
|---|---|---|
| | (IN THOUSANDS) | |
| Demand: | | |
| Non-interest bearing | **$ 177,533** | $ 136,462 |
| Interest bearing | **200,969** | 177,767 |
| Savings | **112,353** | 95,933 |
| Money market | **219,919** | 208,343 |
| Certificates of deposit in denominations of $100,000 or more | **48,931** | 38,770 |
| Other time | **295,215** | 303,238 |
| Total deposits | **$ 1,054,920** | $ 960,513 |

The following table sets forth the balance of other time deposits and certificates of deposit of $100,000 or more as of December 31, 2020 maturing in the periods presented:

| YEAR: | OTHER TIME DEPOSITS | CERTIFICATES OF DEPOSIT OF $100,000 OR MORE | TOTAL |
|---|---|---|---|
| | (IN THOUSANDS) | | |
| 2021 | **$ 174,109** | **$ 45,646** | **$ 219,755** |
| 2022 | **63,046** | **2,714** | **65,760** |
| 2023 | **23,670** | **400** | **24,070** |
| 2024 | **15,146** | **171** | **15,317** |
| 2025 | **10,293** | **—** | **10,293** |
| 2026 and after | **8,951** | **—** | **8,951** |
| Total | **$ 295,215** | **$ 48,931** | **$ 344,146** |

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, 2020 and 2019 are $81.7 million and $69.0 million, respectively.

The amount of related party deposits totaled $938,000 and $1,875,000 at December 31, 2020 and 2019, 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, 2020 FEDERAL FUNDS PURCHASED | SHORT-TERM BORROWINGS |
|---|---|---|
| | (IN THOUSANDS, EXCEPT RATES) | |
| Balance | **$ —** | **$ 24,702** |
| Maximum balance at any month end | **2,000** | **41,632** |
| Average balance during year | **18** | **4,929** |
| Average rate paid for the year | **0.87 %** | **0.58 %** |
| Interest rate on year-end balance | **—** | **0.41** |

| | AT DECEMBER 31, 2019 | |
|---|---|---|
| | FEDERAL FUNDS PURCHASED | SHORT-TERM BORROWINGS |
| | (IN THOUSANDS, EXCEPT RATES) | |
| Balance | $ — | $ 22,412 |
| Maximum balance at any month end | — | 49,615 |
| Average balance during year | 58 | 11,030 |
| Average rate paid for the year | 3.04 % | 2.59 % |
| Interest rate on year-end balance | — | 1.81 |

| | AT DECEMBER 31, 2018 | |
|---|---|---|
| | FEDERAL FUNDS PURCHASED | SHORT-TERM BORROWINGS |
| | (IN THOUSANDS, EXCEPT RATES) | |
| Balance | $ — | $ 41,029 |
| Maximum balance 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 |

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

These borrowing transactions have an average maturity of overnight.

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

Advances from the FHLB consist of the following:

| | AT DECEMBER 31, 2020 | |
|---|---|---|
| | WEIGHTED AVERAGE YIELD | BALANCE |
| MATURING | (IN THOUSANDS, EXCEPT RATES) | |
| 2021 | **1.00 %** | **$ 24,336** |
| 2022 | **2.03** | **20,888** |
| 2023 | **1.59** | **15,568** |
| 2024 | **1.19** | **4,197** |
| Total advances from FHLB | **1.48** | **$ 64,989** |

| | AT DECEMBER 31, 2019 | |
|---|---|---|
| | WEIGHTED AVERAGE YIELD | BALANCE |
| MATURING | (IN THOUSANDS, EXCEPT RATES) | |
| 2020 | 1.75 % | $ 18,729 |
| 2021 | 2.28 | 9,496 |
| 2022 | 2.21 | 17,838 |
| 2023 | 2.48 | 5,568 |
| 2024 | 1.86 | 2,037 |
| Total advances from FHLB | 2.08 | $ 53,668 |

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, 2020, the Company had immediately available $329 million of overnight borrowing capability at the FHLB, $31 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, 2020 and 2019 was $13.0 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 was 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, 2020 and 2019 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.

Assets and Liability Measured and Recorded on a Recurring Basis

Equity securities are reported at fair value utilizing Level 1 inputs. These securities are mutual funds held within a rabbi trust for the Company's executive deferred compensation plan. The mutual funds held are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price.

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 interest rate swaps used for interest rate risk management are based on an external derivative valuation model using data inputs from similar transactions 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, 2020 and 2019, by level within the fair value hierarchy (in thousands).

| | FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2020 USING | | | |
|---|---|---|---|---|
| | TOTAL | (LEVEL 1) | (LEVEL 2) | (LEVEL 3) |
| Equity securities (1) | **$ 443** | **$ 443** | **$ —** | **$ —** |
| Available for sale securities: | | | | |
| U.S. Agency | **3,152** | **—** | **3,152** | **—** |
| U.S. Agency mortgage-backed securities | **67,913** | **—** | **67,913** | **—** |
| Municipal | **20,348** | **—** | **20,348** | **—** |
| Corporate bonds | **52,752** | **—** | **52,752** | **—** |
| Fair value swap asset (1) | **3,320** | **—** | **3,320** | **—** |
| Fair value swap liability (2) | **(3,320)** | **—** | **(3,320)** | **—** |

| | FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2019 USING | | | |
|---|---|---|---|---|
| | TOTAL | (LEVEL 1) | (LEVEL 2) | (LEVEL 3) |
| Equity securities (1) | $ 366 | $ 366 | $ — | $ — |
| Available for sale securities: | | | | |
| U.S. Agency | 5,116 | — | 5,116 | — |
| U.S. Agency mortgage-backed securities | 81,633 | — | 81,633 | — |
| Municipal | 15,170 | — | 15,170 | — |
| Corporate bonds | 39,830 | — | 39,830 | — |
| Fair value swap asset (1) | 959 | — | 959 | — |
| Fair value swap liability (2) | (959) | — | (959) | — |

(1) Included within other assets on the Consolidated Balance Sheets.

(2) Included within other liabilities on the Consolidated Balance Sheets.

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 the 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 using unobservable inputs. At December 31, 2020, impaired loans with a carrying value of $266,000 were reduced by a specific valuation allowance totaling $8,000 resulting in a net fair value of $258,000. At December 31, 2019, impaired loans with a carrying value of $263,000 were reduced by a specific valuation allowance totaling $8,000 resulting in a net fair value of $255,000.

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.

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, 2020 USING | | | |
|---|---|---|---|---|
| | TOTAL | (LEVEL 1) | (LEVEL 2) | (LEVEL 3) |
| Impaired loans | **$ 258** | **$ —** | **$ —** | **$ 258** |

| | FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2019 USING | | | |
|---|---|---|---|---|
| | TOTAL | (LEVEL 1) | (LEVEL 2) | (LEVEL 3) |
| Impaired loans | $ 255 | $ — | $ — | $ 255 |
| Other real estate owned | 37 | — | — | 37 |

| | Quantitative Information About Level 3 Fair Value Measurements | | | |
|---|---|---|---|---|
| December 31, 2020 | Fair Value | Valuation Techniques | Unobservable Input | Range (Wgtd Ave) |
| Impaired loans | **$ 258** | **Appraisal of collateral (1)** | **Appraisal adjustments(2)** | **0% to 100% (3%)** |

| | Quantitative Information About Level 3 Fair Value Measurements | | | |
|---|---|---|---|---|
| December 31, 2019 | Fair Value | Valuation Techniques | Unobservable Input | Range (Wgtd Ave) |
| Impaired loans | $ 255 | Appraisal of collateral (1) | Appraisal adjustments(2) | 0% to 100% (3%) |
| Other real estate owned | 37 | Appraisal of collateral (1) | Appraisal adjustments(2) | 0% to 57% (38%) |
| | | | Liquidation expenses | 21% to 134% (30%) |

(1) Fair Value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable. Also includes qualitative adjustments by management and estimated liquidation expenses.

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

## 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.

The estimated fair values based on US GAAP measurements and recorded carrying values at December 31, 2020 and 2019, for the remaining financial instruments not required to be measured or reported at fair value were as follows:

| | AT DECEMBER 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Fair Value | (Level 1) | (Level 2) | (Level 3) |
| | (IN THOUSANDS) | | | | |
| FINANCIAL ASSETS: | | | | | |
| Investment securities – HTM | **$ 44,222** | **$ 47,106** | **$ —** | **$ 44,108** | **$ 2,998** |
| Loans held for sale | **6,250** | **6,428** | **6,428** | **—** | **—** |
| Loans, net of allowance for loan loss and unearned income | **960,750** | **969,433** | **—** | **—** | **969,433** |
| FINANCIAL LIABILITIES: | | | | | |
| Deposits with stated maturities | **311,064** | **314,845** | **—** | **—** | **314,845** |
| All other borrowings [(1)] | **85,493** | **90,907** | **—** | **—** | **90,907** |

| | AT DECEMBER 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Fair Value | (Level 1) | (Level 2) | (Level 3) |
| | (IN THOUSANDS) | | | | |
| FINANCIAL ASSETS: | | | | | |
| Investment securities – HTM | $ 39,936 | $ 41,082 | $ — | $ 38,129 | $ 2,953 |
| Loans held for sale | 4,868 | 4,970 | 4,970 | — | — |
| Loans, net of allowance for loan loss and unearned income | 873,427 | 873,908 | — | — | 873,908 |
| FINANCIAL LIABILITIES: | | | | | |
| Deposits with stated maturities | 309,044 | 310,734 | — | — | 310,734 |
| All other borrowings [(1)] | 74,134 | 76,323 | — | — | 76,323 |

(1) All other borrowings include advances from Federal Home Loan Bank, guaranteed junior subordinated deferrable interest debentures, and subordinated debt.

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 expense for income taxes is summarized below and includes both federal and applicable state corporate income taxes:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| | (IN THOUSANDS) | | |
| Current | **$ (400)** | $ 1,393 | $ (988) |
| Deferred | **1,614** | 179 | 2,665 |
| Income tax expense | **$ 1,214** | $ 1,572 | $ 1,677 |

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

| | YEAR ENDED DECEMBER 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2018 | |
| | AMOUNT | RATE | AMOUNT | RATE | AMOUNT | RATE |
| | (IN THOUSANDS, EXCEPT PERCENTAGES) | | | | | |
| Income tax expense based on federal statutory rate | **$ 1,221** | **21.0 %** | $ 1,596 | 21.0 % | $ 1,983 | 21.0 % |
| Tax exempt income | **(188)** | **(3.2)** | (131) | (1.4) | (131) | (1.4) |
| Other | **181** | **3.1** | 107 | 1.1 | (175) | (1.8) |
| Total expense for income taxes | **$ 1,214** | **20.9 %** | $ 1,572 | 20.7 % | $ 1,677 | 17.8 % |

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

| | AT DECEMBER 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (IN THOUSANDS) | |
| DEFERRED TAX ASSETS: | | |
| Allowance for loan losses | **$ 2,382** | $ 1,949 |
| Unfunded commitment reserve | **183** | 215 |
| Premises and equipment | **686** | 1,129 |
| Lease liabilities | **816** | — |
| Accrued pension obligation | **—** | 1,093 |
| Other | **149** | 230 |
| Total tax assets | **4,216** | 4,616 |
| DEFERRED TAX LIABILITIES: | | |
| Investment accretion | **(88)** | (82) |
| Unrealized investment security gains | **(941)** | (456) |
| Lease right-of-use assets | **(780)** | — |
| Accrued pension obligation | **(646)** | — |
| Other | **(189)** | (102) |
| Total tax liabilities | **(2,644)** | (640) |
| Net deferred tax asset | **$ 1,572** | $ 3,976 |

At December 31, 2020 and 2019, 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, enacted on December 22, 2017, the Company's AMT tax credits that were not used to reduce regular taxes were eligible for a 50% refund in 2018 to 2020 and a 100% refund in 2021. Due to this change, the AMT tax credit was fully utilized as of December 31, 2019.

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

| | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (IN THOUSANDS) | |
| Unrealized gains recognized in comprehensive income | **$ (485)** | $ (830) |
| Pension obligation of the defined benefit plan not yet recognized in income | **(305)** | 1,348 |
| Deferred provision for income taxes | **(1,614)** | (179) |
| Net increase (decrease) | **$ (2,404)** | $ 339 |

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 2017 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

## 17. EMPLOYEE BENEFIT PLANS

### PENSION PLAN:

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 401 (k) 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 $1.5 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, 2020.

### PENSION BENEFITS:

| | YEAR ENDED DECEMBER 31, 2020 | 2019 |
|---|---|---|
| | (IN THOUSANDS) | |
| CHANGE IN BENEFIT OBLIGATION: | | |
| Benefit obligation at beginning of year | **$ 49,561** | $ 41,094 |
| Service cost | **1,676** | 1,470 |
| Interest cost | **1,281** | 1,569 |
| Actuarial loss | **6,085** | 7,758 |
| Benefits paid | **(3,742)** | (2,330) |
| Benefit obligation at end of year | **54,861** | 49,561 |
| CHANGE IN PLAN ASSETS: | | |
| Fair value of plan assets at beginning of year | **44,831** | 38,478 |
| Actual return on plan assets | **8,358** | 5,483 |
| Employer contributions | **9,000** | 3,200 |
| Benefits paid | **(3,742)** | (2,330) |
| Fair value of plan assets at end of year | **58,447** | 44,831 |
| Funded status of the plan | **$ 3,586** | $ (4,730) |

| | YEAR ENDED DECEMBER 31, 2020 | 2019 |
|---|---|---|
| | (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 | **$ 20,628** | $ 22,113 |
| Total | **$ 20,628** | $ 22,113 |

| | YEAR ENDED DECEMBER 31, 2020 | 2019 |
|---|---|---|
| | (IN THOUSANDS) | |
| ACCUMULATED BENEFIT OBLIGATION: | | |
| Accumulated benefit obligation | **$ 50,435** | $ 45,501 |

The weighted-average assumptions used to determine benefit obligations at December 31, 2020 and 2019 were as follows:

| | YEAR ENDED DECEMBER 31, 2020 | 2019 |
|---|---|---|
| WEIGHTED AVERAGE ASSUMPTIONS: | | |
| Discount rate | **2.47 %** | 3.20 % |
| Salary scale | **2.50** | 2.50 |

| | YEAR ENDED DECEMBER 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| | (IN THOUSANDS) | | |
| COMPONENTS OF NET PERIODIC BENEFIT COST: | | | |
| Service cost | **$ 1,676** | $ 1,470 | $ 1,482 |
| Interest cost | **1,281** | 1,569 | 1,273 |
| Expected return on plan assets | **(3,241)** | (3,025) | (2,798) |
| Special termination benefit liability | **—** | — | 63 |
| Recognized net actuarial loss | **2,453** | 1,649 | 1,548 |
| Net periodic pension cost | **$ 2,169** | $ 1,663 | $ 1,568 |

The service cost component of net periodic benefit cost is included in salaries and employee benefits and all other components of net periodic benefit cost are included in other expense on the Consolidated Statements of Operations.

| | YEAR ENDED DECEMBER 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| | (IN THOUSANDS) | | |
| OTHER CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE LOSS | | | |
| Net loss | **$ 968** | $ 5,300 | $ 4,683 |
| Recognized loss | **(2,453)** | (1,649) | (1,548) |
| Total recognized in other comprehensive loss before tax effect | **$ (1,485)** | $ 3,651 | $ 3,135 |
| Total recognized in net benefit cost and other comprehensive loss before tax effect | **$ 684** | $ 5,314 | $ 4,703 |

For the year ended December 31, 2020, actuarial losses in the projected benefit obligation were primarily the result of the decrease in discount rate. Other sources of gain/loss such as plan experience, updated census data and minor adjustments to actuarial assumptions, including updates to lump sum interest rates, lump sum mortality tables, and mortality improvement scales, generated a combined loss of less than 4% of expected year end obligations.

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2020, 2019 and 2018 were as follows:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| WEIGHTED AVERAGE ASSUMPTIONS: | | | |
| Discount rate | **3.20 %** | 4.28 % | 3.63 % |
| Expected return on plan assets | **7.00** | 7.50 | 7.50 |
| Rate of compensation increase | **2.50** | 2.50 | 2.50 |

The Company has assumed a 7.00% 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.

**PLAN ASSETS:**

The plan's measurement date is December 31, 2020. This plan's asset allocation at December 31, 2020 and 2019, by asset category are as follows:

| | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | **2020** | **2019** |
| ASSET CATEGORY: | | |
| Cash and cash equivalents | **1 %** | 1 % |
| Domestic equities | **11** | 8 |
| Mutual funds/ETFs | **82** | 82 |
| International equities | **—** | 1 |
| Corporate bonds | **6** | 8 |
| 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, | |
|---|---|---|
| | **2020** | **2019** |
| | (IN THOUSANDS) | |
| Level 1: | | |
| Cash and cash equivalents | **$ 725** | $ 186 |
| Domestic equities | **6,219** | 3,782 |
| Mutual funds/ETFs | **48,009** | 36,469 |
| International equities | **—** | 620 |
| Level 2: | | |
| Corporate bonds | **3,494** | 3,774 |
| Total fair value of plan assets | **$ 58,447** | $ 44,831 |

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 market value of the plan assets (at December 31, 2020, 2.6% 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 2021 will be at least $6.0 million.

**ESTIMATED FUTURE BENEFIT PAYMENTS:**

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

| YEAR: | ESTIMATED FUTURE BENEFIT PAYMENTS (IN THOUSANDS) |
|---|---|
| 2021 | $ 4,733 |
| 2022 | 4,864 |
| 2023 | 4,410 |
| 2024 | 4,557 |
| 2025 | 4,064 |
| Years 2026-2030 | 15,463 |

**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 $653,000, $604,000 and $503,000 for the years ended December 31, 2020, 2019 and 2018, respectively. The fair value of plan assets includes $719,000 pertaining to the value of the Company's common stock and Trust Preferred securities that are held by the plan at December 31, 2020.

**DEFERRED COMPENSATION PLAN:**

The Company maintains a nonqualified deferred compensation plan in which a select group of executives are permitted to participate. An eligible executive can defer a certain percentage of their current salary to be placed into the plan. The Company has established a rabbi trust to provide funding for the benefits payable under our deferred compensation plan. As of December 31, 2020 and 2019, the Company reported a deferred compensation liability of $443,000 and $366,000, respectively, within other liabilities on the Consolidated Balance Sheets. For the year ended December 31, 2020 and 2019, the Company recognized $7,000 and $9,000, respectively, of deferred compensation plan expense which is reported within other expense on the Consolidated Statements of Operations. See Note 5 (Investment

Securities) for additional disclosures related to the nonqualified deferred compensation plan and assets held within the rabbi trust.

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

**18. 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, 2020, the Company had various outstanding commitments to extend credit approximating $213.9 million and standby letters of credit of $13.3 million, compared to commitments to extend credit of $195.5 million and standby letters of credit of $14.7 million at December 31, 2019.

Standby letters of credit had terms ranging from 1 to 5 years with annual extension options available. Standby letters of credit of approximately $8.5 million were secured as of December 31, 2020 and approximately $9.2 million at December 31, 2019. The carrying amount of the liability for AmeriServ obligations related to unfunded commitments and standby letters of credit was $872,000 at December 31, 2020 and $1,025,000 at December 31, 2019.

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.

**19. STOCK COMPENSATION PLANS**

The Company uses the modified prospective method for accounting for stock-based compensation and recognized $3,000 of compensation expense for the year 2020, $7,000 in 2019 and $14,000 in 2018.

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, 2020, 2019, and 2018, and changes during the years then ended is presented in the table and narrative following:

| | YEAR ENDED DECEMBER 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2018 | |
| | SHARES | WEIGHTED AVERAGE EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
| Outstanding at beginning of year | **296,648** | **$ 3.02** | 336,313 | $ 2.91 | 360,721 | $ 2.85 |
| Granted | **—** | **—** | 7,000 | 4.19 | 5,000 | 4.22 |
| Exercised | **(38,235)** | **2.06** | (40,917) | 2.45 | (24,408) | 2.49 |
| Forfeited | **(27,500)** | **3.30** | (5,748) | 2.44 | (5,000) | 1.92 |
| Outstanding at end of year | **230,913** | **3.14** | 296,648 | 3.02 | 336,313 | 2.91 |
| Exercisable at end of year | **224,580** | **3.11** | 282,565 | 2.96 | 307,814 | 2.86 |
| Weighted average fair value of options granted in current year | | **$ —** | | $ 0.62 | | $ 0.56 |

A total of 224,580 of the 230,913 options outstanding at December 31, 2020, are exercisable and have exercise prices between $2.28 and $4.22, with a weighted average exercise price of $3.11 and a weighted average remaining contractual life of 3.38 years. The remaining 6,333 options that are not yet exercisable have exercise prices between $4.19 and $4.22, with a weighted average exercise price of $4.20 and a weighted average remaining contractual life of 8.07 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 2020, 2019, and 2018. No stock options were granted during 2020.

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| PRICING MODEL ASSUMPTION RANGES | 2020 | 2019 | 2018 |
| Risk-free interest rate | **— %** | 2.65 % | 3.13 % |
| Expected lives in years | **—** | 10 | 10 |
| Expected volatility | **— %** | 15.75 % | 15.59 % |
| Expected dividend rate | **— %** | 1.91 % | 1.90 % |

The intrinsic value of stock options exercised was $56,000, $71,000, and $42,000 in 2020, 2019, and 2018, respectively.

## 20. 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, 2020, 2019, and 2018 (in thousands):

| | YEAR ENDING DECEMBER 31, 2020 | | | YEAR ENDED DECEMBER 31, 2019 | | | YEAR ENDING DECEMBER 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | **$ 1,715** | **$ (17,886)** | **$ (16,171)** | $ (1,409) | $ (12,816) | $ (14,225) | $ (327) | $ (12,623) | $ (12,950) |
| Other comprehensive income (loss) before reclassifications | **1,824** | **(789)** | **1,035** | 3,217 | (6,373) | (3,156) | (1,429) | (1,416) | (2,845) |
| Amounts reclassified from accumulated other comprehensive loss | **—** | **1,938** | **1,938** | (93) | 1,303 | 1,210 | 347 | 1,223 | 1,570 |
| Net current period other comprehensive income (loss) | **1,824** | **1,149** | **2,973** | 3,124 | (5,070) | (1,946) | (1,082) | (193) | (1,275) |
| Ending balance | **$ 3,539** | **$ (16,737)** | **$ (13,198)** | $ 1,715 | $ (17,886) | $ (16,171) | $ (1,409) | $ (12,816) | $ (14,225) |

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

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the periods ending December 31, 2020, 2019, and 2018 (in thousands):

| | Amount reclassified from accumulated other comprehensive loss(1) | | | |
|---|---|---|---|---|
| Details about other comprehensive accumulated loss components | YEAR ENDING DECEMBER 31, 2020 | YEAR ENDING DECEMBER 31, 2019 | YEAR ENDING DECEMBER 31, 2018 | Affected line item in the statement of operations |
| Realized (gains) losses on sale of securities | | | | |
| | **$ —** | $ (118) | $ 439 | Net realized (gains) losses on investment securities |
| | **—** | 25 | (92) | Provision for income taxes |
| | **$ —** | $ (93) | $ 347 | |
| Amortization of estimated defined benefit pension plan loss(2) | | | | |
| | **$ 2,453** | $ 1,649 | $ 1,548 | Other expense |
| | **(515)** | (346) | (325) | Provision for income taxes |
| | **$ 1,938** | $ 1,303 | $ 1,223 | |
| Total reclassifications for the period | **$ 1,938** | $ 1,210 | $ 1,570 | |

(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).

## 21. 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 community banking segment and $2.4 million relates to the WCCA acquisition which is included in the wealth management segment. The balance of the Company's goodwill at December 31, 2020 and 2019 was $11.9 million.

## 22. 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 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, 2020 and 2019, the Company received $196,000 and $120,000, respectively, in fees on the interest rate swap transactions, which are recognized as revenue when received.

These swaps are considered free-standing derivatives and are reported at fair value within other assets and other liabilities on the Consolidated Balance Sheets. Disclosures related to the fair value of the swap transactions can be found in Note 14.

The following table summarizes the interest rate swap transactions that impacted the Company's 2020 and 2019 performance (in thousands, except percentages).

| | DECEMBER 31, 2020 | | | | |
|---|---|---|---|---|---|
| | HEDGE TYPE | AGGREGATE NOTIONAL AMOUNT | WEIGHTED AVERAGE RATE RECEIVED/(PAID) | REPRICING FREQUENCY | INCREASE (DECREASE) IN INTEREST EXPENSE |
| Swap assets | N/A | $ 46,760 | 2.91 % | Monthly | $ (523) |
| Swap liabilities | N/A | (46,760) | (2.91) | Monthly | 523 |
| Net exposure | | — | — | | — |

| | DECEMBER 31, 2019 | | | | |
|---|---|---|---|---|---|
| | HEDGE TYPE | AGGREGATE NOTIONAL AMOUNT | WEIGHTED AVERAGE RATE RECEIVED/(PAID) | REPRICING FREQUENCY | INCREASE (DECREASE) IN INTEREST EXPENSE |
| Swap assets | N/A | $ 31,668 | 4.44 % | Monthly | $ (18) |
| Swap liabilities | N/A | (31,668) | (4.44) | Monthly | 18 |
| Net exposure | | — | — | | — |

The Company monitors and controls all derivative products with a comprehensive Board of Directors 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, 2020 and 2019. None of the Company's derivatives are designated as hedging instruments.

## 23. 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 community 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.

The community banking segment includes both retail and commercial banking activities. 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 insurance products. The wealth management businesses also include the union collective investment funds (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, 2020 | | | |
|---|---|---|---|---|
| | COMMUNITY BANKING | WEALTH MANAGEMENT | INVESTMENT/ PARENT | TOTAL |
| | (IN THOUSANDS) | | | |
| Net interest income (expense) | **$ 42,862** | **$ 55** | **$ (6,550)** | **$ 36,367** |
| Provision for loan loss | **2,375** | **—** | **—** | **2,375** |
| Non-interest income | **6,022** | **10,212** | **41** | **16,275** |
| Non-interest expense | **34,136** | **7,683** | **2,636** | **44,455** |
| Income (loss) before income taxes | **12,373** | **2,584** | **(9,145)** | **5,812** |
| Income tax expense (benefit) | **2,303** | **598** | **(1,687)** | **1,214** |
| Net income (loss) | **$ 10,070** | **$ 1,986** | **$ (7,458)** | **$ 4,598** |
| Total assets | **$ 1,083,819** | **$ 10,285** | **$ 185,609** | **$ 1,279,713** |

| | YEAR ENDED DECEMBER 31, 2019 | | | |
|---|---|---|---|---|
| | COMMUNITY BANKING | WEALTH MANAGEMENT | INVESTMENT/ PARENT | TOTAL |
| | (IN THOUSANDS) | | | |
| Net interest income (expense) | $ 40,865 | $ 81 | $ (5,504) | $ 35,442 |
| Provision for loan loss | 800 | — | — | 800 |
| Non-interest income | 5,407 | 9,736 | (370) | 14,773 |
| Non-interest expense | 31,856 | 7,340 | 2,619 | 41,815 |
| Income (loss) before income taxes | 13,616 | 2,477 | (8,493) | 7,600 |
| Income tax expense (benefit) | 2,715 | 593 | (1,736) | 1,572 |
| Net income (loss) | $ 10,901 | $ 1,884 | $ (6,757) | $ 6,028 |
| Total assets | $ 981,787 | $ 10,361 | $ 179,036 | $ 1,171,184 |

| | YEAR ENDED DECEMBER 31, 2018 | | | |
|---|---|---|---|---|
| | COMMUNITY BANKING | WEALTH MANAGEMENT | INVESTMENT/ PARENT | TOTAL |
| | (IN THOUSANDS) | | | |
| Net interest income (expense) | $ 39,195 | $ 71 | $ (3,772) | $ 35,494 |
| Credit provision for loan loss | (600) | — | — | (600) |
| Non-interest income | 4,832 | 9,651 | (259) | 14,224 |
| Non-interest expense | 30,809 | 7,319 | 2,745 | 40,873 |
| Income (loss) before income taxes | 13,818 | 2,403 | (6,776) | 9,445 |
| Income tax expense (benefit) | 2,764 | 554 | (1,641) | 1,677 |
| Net income (loss) | $ 11,054 | $ 1,849 | $ (5,135) | $ 7,768 |
| Total assets | $ 966,910 | $ 9,345 | $ 184,425 | $ 1,160,680 |

## 24. 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 (MD&A).

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total, common equity tier 1, and tier 1 capital to risk-weighted assets (as defined) 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, 2020 and 2019, 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 as of such date. To be categorized as well capitalized, the Company must maintain minimum total capital, common equity tier 1 capital, tier 1 capital, and tier 1 leverage ratios as set forth in the table.

| | AT DECEMBER 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | COMPANY | | BANK | | MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES | TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION REGULATIONS* |
| | AMOUNT | RATIO | AMOUNT | RATIO | RATIO | RATIO |
| | (IN THOUSANDS, EXCEPT RATIOS) | | | | | |
| Total Capital (To Risk Weighted Assets) | **$ 135,777** | **12.93 %** | **$ 125,182** | **11.95 %** | **8.00 %** | **10.00 %** |
| Tier 1 Common Equity (To Risk Weighted Assets) | **105,653** | **10.06** | **112,965** | **10.78** | **4.50** | **6.50** |
| Tier 1 Capital (To Risk Weighted Assets) | **117,556** | **11.20** | **112,965** | **10.78** | **6.00** | **8.00** |
| Tier 1 Capital (To Average Assets) | **117,556** | **9.29** | **112,965** | **9.03** | **4.00** | **5.00** |

| | AT DECEMBER 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | COMPANY | | BANK | | MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES | TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION REGULATIONS* |
| | AMOUNT | RATIO | AMOUNT | RATIO | RATIO | RATIO |
| | (IN THOUSANDS, EXCEPT RATIOS) | | | | | |
| Total Capital (To Risk Weighted Assets) | $ 132,544 | 13.49 % | $ 119,477 | 12.23 % | 8.00 % | 10.00 % |
| Tier 1 Common Equity (To Risk Weighted Assets) | 102,841 | 10.47 | 109,173 | 11.17 | 4.50 | 6.50 |
| Tier 1 Capital (To Risk Weighted Assets) | 114,729 | 11.68 | 109,173 | 11.17 | 6.00 | 8.00 |
| Tier 1 Capital (To Average Assets) | 114,729 | 9.87 | 109,173 | 9.50 | 4.00 | 5.00 |

* Applies to the Bank only.

Additionally, while not a regulatory capital ratio, the Company's tangible common equity ratio (non-GAAP) was 7.29% and 7.48% for 2020 and 2019, respectively. See the discussion of the tangible common equity ratio under the Balance Sheet section of the MD&A.

## 25. 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, 2020 | AT DECEMBER 31, 2019 |
|---|---|---|
| | (IN THOUSANDS) | |
| ASSETS | | |
| Cash | **$ 100** | $ 100 |
| Short-term investments | **1,998** | 2,544 |
| Cash and cash equivalents | **2,098** | 2,644 |
| Investment securities available for sale | **3,789** | 3,758 |
| Equity investment in banking subsidiary | **111,513** | 104,843 |
| Equity investment in non-banking subsidiaries | **7,327** | 7,830 |
| Other assets | **1,289** | 978 |
| TOTAL ASSETS | **$ 126,016** | $ 120,053 |
| LIABILITIES | | |
| Guaranteed junior subordinated deferrable interest debentures | **$ 12,970** | $ 12,955 |
| Subordinated debt | **7,534** | 7,511 |
| Other liabilities | **1,113** | 973 |
| TOTAL LIABILITIES | **21,617** | 21,439 |
| STOCKHOLDERS' EQUITY | | |
| Total stockholders' equity | **104,399** | 98,614 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | **$ 126,016** | $ 120,053 |

**STATEMENTS OF OPERATIONS**

| | YEAR ENDED DECEMBER 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| | | (IN THOUSANDS) | |
| INCOME | | | |
| Inter-entity management and other fees | **$ 2,708** | $ 2,556 | $ 2,430 |
| Dividends from banking subsidiary | **2,000** | 3,800 | 3,500 |
| Dividends from non-banking subsidiaries | **1,944** | 1,105 | 1,190 |
| Interest, dividend and other income | **106** | 186 | 119 |
| TOTAL INCOME | **6,758** | 7,647 | 7,239 |
| EXPENSE | | | |
| Interest expense | **1,642** | 1,642 | 1,642 |
| Salaries and employee benefits | **2,667** | 2,614 | 2,610 |
| Other expense | **1,749** | 1,707 | 1,733 |
| TOTAL EXPENSE | **6,058** | 5,963 | 5,985 |
| INCOME BEFORE INCOME TAXES AND EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES | **700** | 1,684 | 1,254 |
| Benefit for income taxes | **(681)** | (676) | (722) |
| Equity in undistributed earnings of subsidiaries | **3,217** | 3,668 | 5,792 |
| NET INCOME | **$ 4,598** | $ 6,028 | $ 7,768 |
| COMPREHENSIVE INCOME | **$ 7,571** | $ 4,082 | $ 6,493 |

**STATEMENTS OF CASH FLOWS**

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | | (IN THOUSANDS) | |
| OPERATING ACTIVITIES | | | |
| Net income | **$ 4,598** | $ 6,028 | $ 7,768 |
| Adjustment to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed earnings of subsidiaries | **(3,217)** | (3,668) | (5,792) |
| Stock compensation expense | **3** | 7 | 14 |
| Other – net | **(55)** | (427) | 433 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | **1,329** | 1,940 | 2,423 |
| INVESTING ACTIVITIES | | | |
| Purchase of investment securities – available for sale | **(1,254)** | — | (1,002) |
| Proceeds from maturity and sales of investment securities – available for sale | **1,246** | 1,085 | 1,462 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | **(8)** | 1,085 | 460 |
| FINANCING ACTIVITIES | | | |
| Purchases of treasury stock | **(151)** | (2,550) | (2,346) |
| Common stock dividends paid | **(1,716)** | (1,642) | (1,347) |
| NET CASH USED IN FINANCING ACTIVITIES | **(1,867)** | (4,192) | (3,693) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | **(546)** | (1,167) | (810) |
| CASH AND CASH EQUIVALENTS AT JANUARY 1 | **2,644** | 3,811 | 4,621 |
| CASH AND CASH EQUIVALENTS AT DECEMBER 31 | **$ 2,098** | $ 2,644 | $ 3,811 |

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 $109,715,000 of restricted surplus and retained earnings at December 31, 2020.

## 26. SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA (unaudited)

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

| | 2020 QUARTER ENDED | | | |
|---|---|---|---|---|
| | DEC. 31 | SEPT. 30 | JUNE 30, | MARCH 31, |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | |
| Interest income | $ 11,640 | $ 11,237 | $ 12,061 | $ 11,944 |
| Interest expense | 2,288 | 2,446 | 2,588 | 3,193 |
| Net interest income | 9,352 | 8,791 | 9,473 | 8,751 |
| Provision for loan losses | 1,075 | 675 | 450 | 175 |
| Net interest income after provision for loan losses | 8,277 | 8,116 | 9,023 | 8,576 |
| Non-interest income | 4,372 | 4,304 | 3,767 | 3,832 |
| Non-interest expense | 11,709 | 11,107 | 11,006 | 10,633 |
| Income before income taxes | 940 | 1,313 | 1,784 | 1,775 |
| Provision for income taxes | 248 | 235 | 365 | 366 |
| Net income | $ 692 | $ 1,078 | $ 1,419 | $ 1,409 |
| Basic earnings per common share | $ 0.04 | $ 0.06 | $ 0.08 | $ 0.08 |
| Diluted earnings per common share | 0.04 | 0.06 | 0.08 | 0.08 |
| Cash dividends declared per common share | 0.025 | 0.025 | 0.025 | 0.025 |

| | 2019 QUARTER ENDED | | | |
|---|---|---|---|---|
| | DEC. 31 | SEPT. 30 | JUNE 30, | MARCH 31, |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | |
| Interest income | $ 12,405 | $ 12,433 | $ 12,765 | $ 12,164 |
| Interest expense | 3,445 | 3,669 | 3,704 | 3,507 |
| Net interest income | 8,960 | 8,764 | 9,061 | 8,657 |
| Provision (credit) for loan losses | 975 | 225 | — | (400) |
| Net interest income after provision (credit) for loan losses | 7,985 | 8,539 | 9,061 | 9,057 |
| Non-interest income | 3,416 | 4,095 | 3,657 | 3,605 |
| Non-interest expense | 10,563 | 10,503 | 10,456 | 10,293 |
| Income before income taxes | 838 | 2,131 | 2,262 | 2,369 |
| Provision for income taxes | 169 | 442 | 470 | 491 |
| Net income | $ 669 | $ 1,689 | $ 1,792 | $ 1,878 |
| Basic earnings per common share | $ 0.04 | $ 0.10 | $ 0.10 | $ 0.11 |
| Diluted earnings per common share | 0.04 | 0.10 | 0.10 | 0.11 |
| Cash dividends declared per common share | 0.025 | 0.025 | 0.025 | 0.020 |

## 27. RISKS AND UNCERTAINTIES

The impact of the COVID-19 pandemic is fluid and continues to evolve, adversely affecting many of the Company's customers. The pandemic and its associated impacts on trade (including supply chains and export levels), travel, employee productivity, unemployment, and consumer spending has resulted in less economic activity, and significant volatility and disruption in the financial markets. The ultimate extent of the impact of the COVID-19 pandemic on the Company's business, financial condition, and results of operations is currently uncertain and will depend on various developments and other factors, including, among others, the duration and scope of the pandemic, as well as governmental, regulatory, and private sector responses to the pandemic, and the associated impacts on the economy, financial markets and our customers, employees, and vendors. While the full effects of the pandemic remain unknown, the Company is committed to supporting its customers, employees, and communities during this difficult time.

## 28. SUBSEQUENT EVENTS

On January 15, 2021, the Company issued a press release announcing the execution of a definitive agreement regarding the acquisition by AmeriServ Financial Bank, the Company's wholly owned banking subsidiary, of the branch and deposit customers of Citizen's Neighborhood Bank (CNB), an operating division of Riverview Bank, located in Meyersdale, Pennsylvania and the deposit customers of CNB at the branch located in Somerset, Pennsylvania. As of the agreement date, the related deposits totaled approximately $48 million and will be acquired for a 3.71% deposit premium. The Meyersdale branch will continue in operation under the AmeriServ name, and the Somerset branch customers will be serviced from the neighboring full service AmeriServ office at 108 West Main Street. On a pro forma basis, AmeriServ will have the fourth largest deposit market share in Somerset County with four branches and $150 million in deposits. This transaction will be immediately accretive to the Company's earnings and the approximate 2% dilution to the Company's tangible book value will be earned back in less than three years. The transaction is subject to regulatory approvals and satisfaction of customary closing conditions and is expected to close in the second quarter of 2021.

In late December 2020, the Federal Government passed a new $900 billion pandemic relief bill which includes $284.5 billion for the re-opening of the Paycheck Protection Program. The Company will again assist our business customers and participate in the program in 2021. As of February 28, 2021, the Company has originated 141 loans totaling $24.2 million under the new round of the Paycheck Protection Program.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AmeriServ Financial, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019; the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2020; 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### 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 Public Company Accounting Oversight Board (United States) (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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

### Critical Audit Matters

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

### Allowance for Loan Losses (ALL) – Qualitative Factors

*Description of the Matter*
The Company's loan portfolio totaled $972.1 million as of December 31, 2020, and the associated ALL was $11.3 million. As discussed in Notes 1, 6, and 7 to the consolidated financial statements, determining the amount of the ALL requires significant judgment about the collectability of loans, which includes an assessment of quantitative factors such as historical loss experience within each risk category of loans and testing of certain commercial loans for impairment. Management applies additional qualitative adjustments to reflect the inherent losses that exist in the loan portfolio at the balance sheet date that are not reflected in the historical loss experience. Qualitative adjustments are made based upon changes in lending policies and practices, economic conditions, changes in the loan portfolio mix, trends in loan delinquencies and classified loans, collateral values, and concentrations of credit risk for the commercial loan portfolios.

**Allowance for Loan Losses (ALL) – Qualitative Factors (Continued)**

We identified these qualitative adjustments within the ALL as critical audit matters because they involve a high degree of subjectivity, which is magnified by the uncertainty resulting from the COVID-19 pandemic. In turn, auditing management's judgments regarding the qualitative factors applied in the ALL calculation involved a high degree of subjectivity.

*How We Addressed the Matter in Our Audit*
We gained an understanding of the Company's process for establishing the ALL, including the qualitative adjustments made to the ALL. We evaluated the design and tested the operating effectiveness of controls over the Company's ALL process, which included, among others, management's review and approval controls designed to assess the need and level of qualitative adjustments to the ALL, as well as the reliability of the data utilized to support management's assessment.

To test the qualitative adjustments, we evaluated the appropriateness of management's methodology and assessed whether relevant risks were reflected in the ALL and the need to consider qualitative adjustments, including the potential effect of COVID-19 on the adjustments.

Regarding the measurement of the qualitative adjustments, we evaluated the completeness, accuracy, and relevance of the data and inputs utilized in management's estimate. For example, we compared the inputs and data to the Company's historical loan performance data, third-party macroeconomic data, and considered the existence of new or contrary information. We also compared the overall ALL to the base range of historical losses to evaluate the level of reserves, including the reasonableness of qualitative adjustments. Furthermore, we analyzed the changes in the components of the qualitative reserves relative to changes in external market factors, the Company's loan portfolio, and asset quality trends.

We also utilized internal credit review specialists with knowledge to evaluate the appropriateness of management's risk-rating processes to ensure that the risk ratings applied to the commercial loan portfolio were reasonable.

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

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

Cranberry Township, Pennsylvania
March 10, 2021

**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, 2020, 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, 2020, its system of internal control over financial reporting is effective and meets the criteria of the "2013 Internal Control — Integrated Framework".

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, 2020.

| | |
|---|---|
| /s/ JEFFREY A. STOPKO | /s/ MICHAEL D. LYNCH |
| Jeffrey A. Stopko | Michael D. Lynch |
| President & Chief Executive Officer | Senior Vice President & Chief Financial Officer |

Johnstown, PA
March 10, 2021

## STATEMENT OF MANAGEMENT RESPONSIBILITY

March 10, 2021

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 | /s/ MICHAEL D. LYNCH |
| Jeffrey A. Stopko | Michael D. Lynch |
| President & Chief Executive Officer | 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, 2020, 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, 2020.

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, 2020 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, 2020.

**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 | 230,913 | $ 3.14 | 472,168 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 230,913 | $ 3.14 | 472,168 |

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 2020 Form 10-K and Part II — Item 8. Page references are to this Form 10-K.

### CONSOLIDATED FINANCIAL STATEMENTS:



### 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 April 2, 2020. | Exhibit 3.1 to the Current Report on Form 8-K filed on April 6, 2020 |
| 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 |

| EXHIBIT NUMBER | DESCRIPTION | PRIOR FILING OR EXHIBIT PAGE NUMBER HEREIN |
|---|---|---|
| 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, 2020, 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 10, 2021

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 March 10, 2021:

| | | | |
|---|---|---|---|
| /s/ Allan R. Dennison<br>Allan R. Dennison | Chairman<br>Director | /s/ Michael D. Lynch<br>Michael D. Lynch | SVP & CFO |
| /s/ Jeffrey A. Stopko<br>Jeffrey A. Stopko | President & CEO<br>Director | /s/ Margaret A. O'Malley<br>Margaret A. O'Malley | Director |
| /s/ J. Michael Adams, Jr.<br>J. Michael Adams, Jr. | Director | /s/ Daniel A. Onorato<br>Daniel A. Onorato | Director |
| /s/ Craig G. Ford<br>Craig G. Ford | Director | /s/ Mark E. Pasquerilla<br>Mark E. Pasquerilla | Director |
| /s/ Kim W. Kunkle<br>Kim W. Kunkle | Director | /s/ Sara A. Sargent<br>Sara A. Sargent | Director |

## AMERISERV FINANCIAL, INC.

**AMERISERV FINANCIAL BANK OFFICE LOCATIONS**

*HEADQUARTERS*
Main Office Johnstown
216 Franklin Street
Johnstown, PA 15901
1-800-837-BANK (2265)

Carrolltown
101 South Main Street
Carrolltown, PA 15722

Central City
104 Sunshine Avenue
Central City, PA 15926

Derry
112 South Chestnut Street
Derry, PA 15627

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 North 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
6858 Route 711
Suite 1
Seward, PA 15954

Somerset
108 West 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

**AMERISERV LOAN PRODUCTION LOCATIONS**

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

Wilkins Township
201 Penn Center Boulevard
Suite 200
Pittsburgh, PA 15235

*24-hr ATM available at all branches except Pittsburgh where there is no ATM available*

## 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:

Piper Sandler Companies 1251 Avenue of the Americas 6th Floor New York, NY 10020 Telephone: (800) 635-6860

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

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

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

Virtu Financial, Inc. 1 Liberty Plaza New York, NY 10006 Telephone: (888) 931-4357

### 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 505000
Louisville, KY 40233-5000
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.

## AMERISERV FINANCIAL, INC.

**Board of Directors**

J. Michael Adams, Jr.
*Chief Counsel to the Pennsylvania DCED*

Allan R. Dennison
*Non-Executive Chairman of the Board of all Subsidiaries*

Craig G. Ford
*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*

Daniel A. Onorato
*Executive Vice President, Chief Corporate Affairs and Communications Officer of Highmark Health*

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*

**General Officers**

Jeffrey A. Stopko, CPA
*President & Chief Executive Officer*

Susan Tomera Angeletti
*Senior Vice President, Director - Corporate Marketing & Alternative Delivery*

Laura L. Fiore
*Senior Vice President, Chief Auditor*

Wendy M. Gressick
*Senior Vice President, Chief Loan Review Officer*

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

Anthony M. Gojmerac
*Vice President, Purchasing & Facilities Officer*

Jessica L. Johnson
*Vice President & Manager of Regulatory Accounting*

Tammie L. Slavick
*Vice President, Financial & Profitability Analysis*

Sharon M. Callihan
*Corporate Secretary*

## AMERISERV FINANCIAL, INC.

## AMERISERV FINANCIAL BANK

**Board of Directors**

J. Michael Adams, Jr.
*Chief Counsel to the Pennsylvania DCED*

Allan R. Dennison
*Non-Executive Chairman of the Board of all Subsidiaries*

Craig G. Ford
*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*

Daniel A. Onorato
*Executive Vice President, Chief Corporate Affairs and Communications Officer of Highmark Health*

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*

**General Officers**

Jeffrey A. Stopko, CPA
*President & Chief Executive Officer*

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

Russell B. Flynn
*Senior Vice President, Retail Lending*

Bettina D. Fochler
*Senior Vice President, Chief Credit Officer*

Kevin H. Justice
*Senior Vice President, Area Executive, Hagerstown*

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*

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

Carie L. Braniff
*Vice President, Corporate Security Officer*

Angela M. Briggs
*Vice President, Deposit Operations Mgr.*

Robert J. Cabala
*Vice President, Commercial Relationship Manager*

George T. Chaney II
*Vice President, Portfolio Manager*

Jennifer L. Devan
*Vice President, Chief Compliance Officer*

Bernard A. Eckenrode
*Vice President, Commercial Relationship Manager*

Mitchell D. Edwards
*Vice President, Commercial Relationship Manager*

Jason D. Eminhizer
*Vice President, Commercial Relationship Manager*

Christine E. Fisher
*Vice President, Business Services*

Anthony M. Gojmerac
*Vice President, Purchasing & Facilities Officer*

Chelsea M. Hartnett
*Vice President, Manager Credit Analysis*

Melissa A. Lohr
*Vice President, Collections & Assigned Risk*

Donald E. Rhodes
*Vice President, Commercial Relationship Manager*

James E. Ryan
*Vice President, Director of IT*

Cynthia L. Stewart
*Vice President, Mortgage Administration*

Shana Stiles
*Vice President, BSA & Assistant Corporate Services Manager*

Charlene J. Tessari
*Vice President, Operations - Application*

Catherine M. Torok
*Vice President, Chief Information Security Officer*

Michelle D. Wyandt
*Vice President, Supervisor Credit Analysis*

## AMERISERV TRUST & FINANCIAL SERVICES COMPANY

**Board of Directors**

J. Michael Adams, Jr.
*Chief Counsel to the Pennsylvania DCED*

Richard W. Bloomingdale
*President, PA AFL-CIO*

Allan R. Dennison
*Non-Executive Chairman of the Board of all Subsidiaries*

Craig G. Ford
*Non-Executive Vice Chairman of the Board of all Subsidiaries*

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*

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

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

**General Officers**

James T. Huerth
*President & Chief Executive Officer*

David A. Finui
*Executive Vice President, Director - 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*

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

Kathleen M. Wallace
*Senior Vice President, Retirement Services Manager*

Timothy E. Walters
*Senior Vice President, Diversified Services Wealth Advisor*

Mary Ann Brustle
*Vice President, Risk Management & Trust Compliance Officer*

Michael P. Geiser
*Vice President, Trust Operations Manager*

Dennis E. Hunt
*Vice President, Retirement Services Officer*

Mark F. Lumley
*Vice President, Assistant Trust Operations Manager*

Justin F. Maser
*Vice President, Portfolio Manager*

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.
*Chief Counsel to the Pennsylvania DCED*

Allan R. Dennison
*Non-Executive Chairman of the Board of all Subsidiaries*

Craig G. Ford
*Non-Executive Vice Chairman of the Board of all Subsidiaries*

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*

**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

**EXHIBIT 21.1**

## SUBSIDIARIES OF THE REGISTRANT

| NAME | PERCENT OF OWNERSHIP | JURISDICTION OF ORGANIZATION |
|---|---|---|
| AmeriServ Financial Bank<br>216 Franklin Street<br>Johnstown, PA 15901-1911 | 100% | Commonwealth of Pennsylvania |
| AmeriServ Trust and Financial Services Company<br>216 Franklin Street<br>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 10, 2021, relating to our audit of the consolidated financial statements, 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, 2020.

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

Cranberry Township, Pennsylvania
March 10, 2021

**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 10, 2021

/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 10, 2021

/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, 2020, 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 10, 2021

**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, 2020, 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 10, 2021

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Headquarters
216 Franklin Street
Johnstown, PA 15901
1-800-837-BANK (2265)