

AMERISERV FINANCIAL INC /PA/  
Form 10-K  
March 05, 2019

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

**FORM 10-K**

(MARK ONE)

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

**OR**

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

**COMMISSION FILE NUMBER 0-11204**

**AMERISERV FINANCIAL, INC.**

(Exact name of registrant as specified in its charter)

PENNSYLVANIA  
(State or other jurisdiction of  
incorporation or organization)

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

MAIN & FRANKLIN STREETS,  
P.O. BOX 430, JOHNSTOWN,  
PENNSYLVANIA  
(Address of principal executive offices)

15907-0430  
(Zip Code)

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

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

Title Of Each Class

Common Stock, Par Value \$0.01 Per Share  
8.45% Beneficial Unsecured Securities, Series A  
(AmeriServ Financial Capital Trust I)

Name Of Each Exchange On Which Registered

The NASDAQ Stock Market LLC  
The NASDAQ Stock Market LLC

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

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

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

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

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. The aggregate market value was \$66,908,753 as of June 30, 2018.

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

## DOCUMENTS INCORPORATED BY REFERENCE

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

---

TABLE OF CONTENTS

**FORM 10-K INDEX**

	Page No.
PART I	
<u>Item 1.</u>	1
<u>Business</u>	
<u>Item 1A.</u>	11
<u>Risk Factors</u>	
<u>Item 1B.</u>	11
<u>Unresolved Staff Comments</u>	
<u>Item 2.</u>	11
<u>Properties</u>	
<u>Item 3.</u>	11
<u>Legal Proceedings</u>	
<u>Item 4.</u>	11
<u>Mine Safety Disclosures</u>	
PART II	
<u>Item 5.</u>	
<u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of</u>	12
<u>Equity Securities</u>	
<u>Item 6.</u>	13
<u>Selected Consolidated Financial Data</u>	
<u>Item 7.</u>	14
<u>Management's Discussion and Analysis of Consolidated Financial Condition and Results of</u>	
<u>Operations</u>	
<u>Item 7A.</u>	35
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	
<u>Item 8.</u>	36
<u>Financial Statements and Supplementary Data</u>	
<u>Item 9.</u>	93
<u>Changes in and Disagreements With Accountants On Accounting and Financial Disclosure</u>	
<u>Item 9A.</u>	93

Controls and Procedures

Item 9B.

93

Other Information

PART III

Item 10.

94

Directors, Executive Officers, and Corporate Governance

Item 11.

94

Executive Compensation

Item 12.

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Item 13.

95

95

Certain Relationships and Related Transactions, and Director Independence

Item 14.

95

Principal Accountant Fees and Services

PART IV

Item 15.

96

Exhibits, Financial Statement Schedules

-

98

Signatures

TABLE OF CONTENTS

**PART I**

**ITEM 1. BUSINESS**

**GENERAL**

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

The Company's principal activities consist of owning and operating its three wholly owned subsidiary entities. At December 31, 2018, the Company had, on a consolidated basis, total assets, deposits, and shareholders' equity of \$1.2 billion, \$949.2 million, and \$98.0 million, respectively. The Company and its subsidiaries derive substantially all of their income from banking and bank-related services. The Company functions primarily as a coordinating and servicing unit for its subsidiary entities in general management, accounting and taxes, loan review, auditing, investment accounting, marketing and risk management.

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

**AMERISERV FINANCIAL BANKING SUBSIDIARY**

**AMERISERV FINANCIAL BANK**

The Bank is a state bank chartered under the Pennsylvania Banking Code of 1965, as amended (the Banking Code). Through 16 locations in Allegheny, Cambria, Centre, Somerset, and Westmoreland counties, Pennsylvania and Washington county, Maryland, the Bank conducts a general banking business. It is a full-service bank offering (i) retail banking services, such as demand, savings and time deposits, checking accounts, money market accounts, secured and unsecured consumer loans, mortgage loans, safe deposit boxes, holiday club accounts, money orders, and traveler's checks; and (ii) lending, depository and related financial services to commercial, industrial, financial, and governmental customers, such as commercial real estate mortgage loans (CRE), short and medium-term loans, revolving credit arrangements, lines of credit, inventory and accounts receivable financing, real estate-construction loans, business savings accounts, certificates of deposit, wire transfers, night depository, and lock box services. The Bank also operates 17 automated bank teller machines (ATMs) through its 24-hour banking network that is linked with NYCE, a regional ATM network, and CIRRUS, a national ATM network. West Chester Capital Advisors (WCCA), a SEC registered investment advisor, is also a subsidiary of the Bank. The Company also operates loan production offices (LPOs) in Wilkins Township and Altoona in Pennsylvania.

We believe that the Bank's deposit base is such that loss of one depositor or a related group of depositors would not have a materially adverse effect on its business. The Bank's business is not seasonal, nor does it have any risks

attendant to foreign sources. A significant majority of the Bank's customer base is located within a 150 mile radius of Johnstown, Pennsylvania, the Bank's headquarters.

## TABLE OF CONTENTS

The Bank is subject to supervision and regular examination by the Federal Reserve Bank of Philadelphia and the PDB. Various federal and state laws and regulations govern many aspects of its banking operations. The following is a summary of key data (dollars in thousands) and ratios of the Bank at December 31, 2018:

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

### **RISK MANAGEMENT OVERVIEW**

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

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

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

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

The following summarizes and describes the Company's various loan categories and the underwriting standards applied to each:

#### Commercial Loans

This category includes credit extensions to commercial and industrial borrowers. Business assets, including accounts receivable, inventory and/or equipment, typically secure these credits. The commercial loan segment also includes



commercial loans secured by owner occupied real estate. In appropriate instances, extensions of credit in this category are subject to collateral advance formulas. Balance sheet strength and profitability are considered when analyzing these credits, with special attention given to historical, current and prospective sources of cash flow, and the ability of the customer to sustain cash flow at acceptable levels. The Bank's policy permits flexibility in determining acceptable debt service coverage ratios. Personal guarantees are frequently required; however, as the financial strength of the borrower increases, the Bank's ability to obtain personal guarantees decreases. In addition to economic risk, this category is impacted by the strength of the borrower's management, industry risk and portfolio concentration risk each of which are also monitored and considered during the underwriting process.

## TABLE OF CONTENTS

### Commercial Loans Secured by Non-Owner Occupied Real Estate

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

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

### Residential Real Estate Mortgages

This category includes mortgages that are secured by residential property. Underwriting of loans within this category is pursuant to Freddie Mac/Fannie Mae underwriting guidelines, with the exception of Community Reinvestment Act (CRA) loans, which have more liberal standards. A meaningful portion of this portfolio consists of home equity loans.

The major risk in this category is that a significant downward economic trend would increase unemployment and cause payment default. The Bank does not engage and has never engaged, in subprime residential mortgage lending.

### Consumer Loans

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

## INVESTMENTS

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

The investment portfolio is primarily made up of AAA rated agency mortgage-backed securities, high quality corporate securities, taxable municipal securities, and agency securities. Management strives to maintain a portfolio duration that is less than 60 months. All holdings must meet standards documented in its investment policy, unless otherwise approved by the Company's CEO or the Asset/Liability Management Committee.

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

Investment securities available for sale at:

	AT DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS)		
U.S. Agency	<b>\$ 7,685</b>	\$ 6,612	\$ 400
Municipal	<b>13,301</b>	7,198	3,793
Corporate bonds	<b>37,359</b>	35,886	34,403
U.S. Agency mortgage-backed securities	<b>90,169</b>	79,854	88,738
Total cost basis of investment securities available for sale	<b>\$ 148,514</b>	\$ 129,550	\$ 127,334
Total fair value of investment securities available for sale	<b>\$ 146,731</b>	\$ 129,138	\$ 127,077

3

TABLE OF CONTENTS

Investment securities held to maturity at:

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

## DEPOSITS

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

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

	AT DECEMBER 31,					
	2018		2017		2016	
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Demand:						
Non-interest bearing	\$ 174,108	%	\$ 182,301	%	\$ 182,732	%
Interest bearing	138,572	0.82	129,589	0.49	108,350	0.29
Savings	98,035	0.17	97,405	0.17	95,986	0.17
Money market	249,618	0.87	275,636	0.52	277,967	0.43
Other time	299,391	1.66	291,475	1.38	290,612	1.28
Total deposits	\$ 959,724	1.07 %	\$ 976,406	0.79 %	\$ 955,647	0.70 %

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

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

## LOANS

The loan portfolio of the Company consisted of the following:

AT DECEMBER 31,				
2018	2017	2016	2015	2014

(IN THOUSANDS)

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

4

TABLE OF CONTENTS

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

## Secondary Market Activities

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

These loans are usually kept in the Bank's portfolio. New portfolio production is predominately adjustable rate mortgages.

## Non-performing Assets

The following table presents information concerning non-performing assets:

	AT DECEMBER 31,				
	2018	2017	2016	2015	2014
	(IN THOUSANDS, EXCEPT PERCENTAGES)				
Non-accrual loans:					
Commercial and industrial	\$	\$353	\$496	\$4,260	\$
Commercial loans secured by owner occupied real estate		859			238
Commercial loans secured by non-owner occupied real estate	11	547	178	18	37
Real estate residential mortgage	1,210	1,257	929	1,788	1,920
Total	1,221	3,016	1,603	6,066	2,195
Other real estate owned:					
Commercial loans secured by owner occupied real estate	157				
Commercial loans secured by non-owner occupied real estate					384
Real estate residential mortgage		18	21	75	128
Total	157	18	21	75	512
Total restructured loans not in non-accrual (TDR)				156	210
Total non-performing assets including TDR	\$1,378	\$3,034	\$1,624	\$6,297	\$2,917
Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned	0.16 %	0.34 %	0.18 %	0.71 %	0.35 %

The Company is unaware of any additional loans which are required to either be charged-off or added to the non-performing asset totals disclosed above. Other real estate owned (OREO) is measured at fair value based on appraisals, less cost to sell at the date of foreclosure. The Company had no loans past due 90 days or more, still accruing, for the periods presented.



TABLE OF CONTENTS

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

	YEAR ENDED DECEMBER 31,				
	2018	2017	2016	2015	2014
	(IN THOUSANDS)				
Interest income due in accordance with original terms	\$75	\$ 103	\$ 118	\$ 94	\$ 136
Interest income recorded		(75 )			
Net reduction in interest income	\$75	\$ 28	\$ 118	\$ 94	\$ 136

**AMERISERV FINANCIAL NON-BANKING SUBSIDIARIES****AMERISERV TRUST AND FINANCIAL SERVICES COMPANY**

AmeriServ Trust and Financial Services Company is a trust company organized under Pennsylvania law in October 1992. Its staff of approximately 46 professionals administers assets valued at approximately \$2.1 billion that are not recognized on the Company's balance sheet at December 31, 2018. The Trust Company focuses on wealth management. Wealth management includes personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. This segment also includes financial services, which include the sale of mutual funds, annuities, and insurance products. The wealth management business also includes the union collective investment funds, namely the ERECT and BUILD funds which are designed to use union pension dollars in construction projects that utilize union labor. The BUILD fund continues in the process of liquidation. At December 31, 2018, the Trust Company had total assets of \$5.4 million and total stockholder's equity of \$5.4 million. In 2018, the Trust Company contributed earnings to the Company as its gross revenue amounted to \$9.2 million and the net income contribution was \$1.5 million. The Trust Company is subject to regulation and supervision by the Federal Reserve Bank of Philadelphia and the PDB.

**AMERISERV LIFE**

AmeriServ Life is a captive insurance company organized under the laws of the State of Arizona. AmeriServ Life engages in underwriting as reinsurer of credit life and disability insurance within the Company's market area. Operations of AmeriServ Life are conducted in each office of the Company's banking subsidiary. AmeriServ Life is subject to supervision and regulation by the Arizona Department of Insurance, the Pennsylvania Insurance Department, and the Board of Governors of the Federal Reserve System (the Federal Reserve). At December 31, 2018, AmeriServ Life had total assets of \$278,000.

**MONETARY POLICIES**

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



Federal Reserve have had, and will continue to have, a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

#### **COMPETITION**

Our subsidiaries face strong competition from other commercial banks, savings banks, credit unions, savings and loan associations, and other financial or investment service institutions for business in the communities they serve. Several of these institutions are affiliated with major banking and financial

## TABLE OF CONTENTS

institutions which are substantially larger and have greater financial resources than the Bank and the Trust Company.

As the financial services industry continues to consolidate, the scope of potential competition affecting our subsidiaries will also increase. Brokerage houses, consumer finance companies, insurance companies, and pension trusts are important competitors for various types of financial services. In addition, personal and corporate trust investment counseling services are offered by insurance companies, other firms, and individuals.

### **MARKET AREA & ECONOMY**

Johnstown, Pennsylvania, where the Company is headquartered, continues to have a cost of living that is lower than the national average. Johnstown is home to The University of Pittsburgh at Johnstown, Pennsylvania Highlands Community College and Conemaugh Health System. The high-tech defense industry is now the main non-health care staple of the Johnstown economy, with the region fulfilling many Federal government contracts, punctuated by one of the premier defense trade shows in the U.S., the annual Showcase For Commerce. The city also hosts annual events such as the Flood City Music Festival and the Thunder in the Valley Motorcycle Rally, which draw several thousand visitors. The Johnstown, PA MSA unemployment rate decreased from a 6.1% average in 2017 to a 5.2% average in 2018. The Johnstown, PA MSA continues to have one of the highest jobless rates among the 18 metropolitan statistical areas across the state. This coupled with a declining population trend creates a challenge moving forward.

Economic conditions are stronger in the State College market and have demonstrated the same improvement experienced in the national economy. The community is a college town, dominated economically and demographically by the presence of the University Park campus of the Pennsylvania State University. Happy Valley is another often-used term to refer to the State College area, including the borough and the townships of College, Harris, Patton, and Ferguson. The unemployment rate for the State College MSA decreased from a 3.7% average in 2017 to a 3.3% average in 2018 and remains one of the lowest of all regions in the Commonwealth. A large percentage of the population in State College falls into the 18 to 34 year old age group, while potential customers in the Cambria/Somerset markets tend to be over 50 years of age.

Hagerstown in Washington County, Maryland offers a rare combination of business advantages providing a major crossroads location that is convenient to the entire East Coast at the intersection of I-81 and I-70. It has a workforce of over 400,000 with strengths in manufacturing and technology. It also offers an affordable cost of doing business and living, all within an hour of the Washington, D.C./Baltimore regions. There are also plenty of facilities and land slated for industrial/commercial development. Hagerstown has become a choice location for manufacturers, financial services, and distribution companies. The Hagerstown, MD-Martinsburg, WV MSA unemployment rate increased from a 3.7% average in 2017 to a 4.3% average in 2018.

The Company also has loan production offices in Wilkins Township in Allegheny County and Altoona in Blair County, Pennsylvania. Wilkins Township in Allegheny County, Pennsylvania is located 15 miles east of the city of Pittsburgh. While the city is historically known for its steel industry, today its economy is largely based on healthcare, education, technology and financial services. The city of Pittsburgh is home to many colleges, universities and research facilities, the most well-known of which are Carnegie Mellon University, Duquesne University and the University of Pittsburgh. Pittsburgh is rich in art and culture. Pittsburgh museums and cultural sites include the Andy Warhol Museum, the Carnegie Museum of Art, the Frick Art & Historical Center, and Pittsburgh Center for the Arts among numerous others. Pittsburgh is also the home of the Pirates, Steelers and Penguins. The unemployment rate for the Pittsburgh MSA decreased from a 5.0% average in 2017 to a 4.3% average in 2018.

Altoona is the business center of Blair County, Pennsylvania with a strong retail, government and manufacturing base. The top field of employment in Altoona and the metro area is healthcare. Its location along I-99 draws from a large trade area over a wide geographic area that extends to State College and Johnstown. It serves as the headquarters for

Sheetz Corporation, which ranks on Forbes list of the top privately owned companies. In addition to being located adjacent to I-99 and a major highway system, Altoona also has easy access to rail and air transportation. The unemployment rate in the Altoona MSA decreased from a 4.8% average in 2017 to a 4.2% average in 2018.

## TABLE OF CONTENTS

### **EMPLOYEES**

The Company employed 321 people as of December 31, 2018 in full- and part-time positions. Approximately 155 non-supervisory employees of the Company are represented by the United Steelworkers, AFL-CIO-CLC, Local Union 2635-06. The Company is under a four-year labor contract with the United Steelworkers Local that will expire on October 15, 2021. The contract calls for annual wage increases of 3.0%. The Company has not experienced a work stoppage since 1979. The Company is one of an estimated ten union represented banks nationwide.

### **INDUSTRY REGULATION**

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

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

### **CAPITAL REQUIREMENTS**

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

As of December 31, 2018, the Company believes that its bank subsidiary was well capitalized, based on the prompt corrective action guidelines described above. On January 1, 2015, U.S. federal banking agencies implemented the new Basel III capital standards, which establish the minimum capital levels to be considered well-capitalized and revise the prompt corrective action requirements under banking regulations. The revisions from the previous standards include a revised definition of capital, the introduction of a minimum common equity tier 1 capital ratio and changed risk

weightings for certain assets. The implementation of the new rules will be phased in over a four year period ending January 1, 2019 with minimum capital requirements becoming increasingly more strict each year of the transition. The new minimum capital to risk-adjusted assets requirements (which includes the impact of the capital conservation buffer applicable to each year) are as follows:

8

---

TABLE OF CONTENTS

	Minimum Capital Effective January 1,		Well Capitalized	
	2017	2018		
Common equity tier 1 capital ratio	5.75 %	6.38 %	6.5	%
Tier 1 capital ratio	7.25 %	7.88 %	8.0	%
Total capital ratio	9.25 %	9.88 %	10.0	%

Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer above its minimum risk-based capital requirements, which increases over the transition period, from 0.625% of total risk weighted assets in 2016 to 2.50% in 2019. Implementation of the deductions and other adjustments to common equity tier 1 capital began on January 1, 2015 and were to be phased-in over a three-year period (beginning at 40% on January 1, 2015, 60% on January 1, 2016 and an additional 20% per year thereafter). Effective January 1, 2018, the U.S. federal banking agencies issued a final rule that paused the full transition of these Basel III deduction and adjustment provisions at 80%.

**DIVIDEND RESTRICTIONS**

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

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

For more information regarding quarterly cash dividends, see Part II, Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities below.

**SARBANES-OXLEY ACT OF 2002**

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

documentation of the design of control effectiveness over the key processes and entity level controls, and testing of the effectiveness of key controls.

#### **PRIVACY PROVISIONS**

Federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about customers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to non-affiliated third parties. The privacy provisions affect how consumer

## TABLE OF CONTENTS

information is transmitted through diversified financial companies and conveyed to outside vendors. The Company believes it is in compliance with the various provisions.

### **USA PATRIOT ACT**

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

### **DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT**

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

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

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

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

### **ECONOMIC GROWTH, REGULATORY RELIEF, AND CONSUMER PROTECTION ACT**

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the Act), which was designed to ease certain restrictions imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, was enacted into



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

## TABLE OF CONTENTS

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

### **AVAILABLE INFORMATION**

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

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

### **ITEM 1A. RISK FACTORS**

Not applicable.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

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

### **ITEM 2. PROPERTIES**

The principal offices of the Company and the Bank occupy the five-story AmeriServ Financial building at the corner of Main and Franklin Streets in Johnstown plus eleven floors of the building adjacent thereto. The Company occupies the main office and its subsidiary entities have 13 other locations which are owned. Seven additional locations are leased with terms expiring from September 30, 2020 to October 29, 2029.

### **ITEM 3. LEGAL PROCEEDINGS**

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

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

TABLE OF CONTENTS**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****COMMON STOCK**

As of January 31, 2019, the Company had 2,887 shareholders of record for its common stock. The Company's common stock is traded on The NASDAQ Stock Market under the symbol ASRV. The following table sets forth the actual high and low closing prices and the cash dividends declared per share for the periods indicated:

	PRICES		CASH
	HIGH	LOW	DIVIDENDS DECLARED
<b>Year ended December 31, 2018:</b>			
<b>First Quarter</b>	<b>\$ 4.20</b>	<b>\$ 4.00</b>	<b>\$ 0.015</b>
<b>Second Quarter</b>	<b>4.30</b>	<b>4.00</b>	<b>0.020</b>
<b>Third Quarter</b>	<b>4.55</b>	<b>4.10</b>	<b>0.020</b>
<b>Fourth Quarter</b>	<b>4.43</b>	<b>3.98</b>	<b>0.020</b>
<b>Year ended December 31, 2017:</b>			
<b>First Quarter</b>	<b>\$ 4.00</b>	<b>\$ 3.60</b>	<b>\$ 0.015</b>
<b>Second Quarter</b>	<b>4.20</b>	<b>3.70</b>	<b>0.015</b>
<b>Third Quarter</b>	<b>4.05</b>	<b>3.80</b>	<b>0.015</b>
<b>Fourth Quarter</b>	<b>4.35</b>	<b>3.85</b>	<b>0.015</b>

The declaration of cash dividends on the Company's common stock is at the discretion of the Board, and any decision to declare a dividend is based on a number of factors, including, but not limited to, earnings, prospects, financial condition, regulatory capital levels, applicable covenants under any credit agreements and other contractual restrictions, Pennsylvania law, federal and Pennsylvania bank regulatory law, and other factors deemed relevant.

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

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

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly	Maximum number of shares that may yet be purchased under the plan
--------	---	---------------------------------	---	--

				announced plan	
October 1	31, 2018	35,622	\$ 4.34	35,622	224,699
November 1	30, 2018	83,068	4.35	83,068	141,631
December 1	31, 2018	29,320	4.20	29,320	112,311
Total		148,010		148,010	

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

TABLE OF CONTENTS**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA****SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA**

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

Interest rate spread	<b>3.08</b>	3.14	3.08	3.33	3.36
Net interest margin	<b>3.31</b>	3.32	3.26	3.49	3.52
Allowance for loan losses as a percentage of loans, net of unearned income, at period end	<b>1.01</b>	1.15	1.12	1.13	1.16
Non-performing assets as a percentage of loans and other real estate owned, at period end	<b>0.16</b>	0.34	0.18	0.71	0.35
Net charge-offs as a percentage of average loans	<b>0.11</b>	0.06	0.44	0.11	0.11
Cumulative one year interest rate sensitivity gap ratio, at period end	<b>1.15</b>	1.22	1.44	1.23	1.13

13

TABLE OF CONTENTS

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

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

**RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016**

**2018 SUMMARY OVERVIEW:**

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

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

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

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

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

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

Our plan for the future at AmeriServ is quite straight forward. Our plan is to maintain a conservative balance sheet, for that is the only reliable antidote to economic surprises. Our plan is also to maintain careful loan underwriting



standards. Lending is a risk business and AmeriServ does not seek to bet the bank, rather AmeriServ seeks to provide funds for trustworthy and reliable borrowers of good character.

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

TABLE OF CONTENTS

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

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)		
Net income	<b>\$ 7,768</b>	\$ 3,293	\$ 2,310
Diluted earnings per share	<b>0.43</b>	0.18	0.12
Return on average assets	<b>0.67 %</b>	0.28 %	0.20 %
Return on average equity	<b>8.08</b>	3.42	2.30

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

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

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

TABLE OF CONTENTS

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

	YEAR ENDED DECEMBER 31,					
	2018		2017		2016	
	(IN THOUSANDS, EXCEPT RATIOS)					
Interest income	\$ 47,094		\$ 44,356		\$ 41,869	
Interest expense	11,600		8,795		7,735	
Net interest income	35,494		35,561		34,134	
Net interest margin	3.31	%	3.32	%	3.26	%

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

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

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

as well as the upward repricing of certain loans tied to LIBOR or the prime rate as both of these indices have moved up with the Federal Reserve's program to increase the target federal funds interest rate. Overall, total loan originations were consistent with the prior year's level. However, loan payoffs exceeded what we experienced in 2017 and also exceeded loan originations in 2018, resulting in a net reduction to the loan portfolio. Included in the total level of payoffs experienced in 2018 was the successful

## TABLE OF CONTENTS

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

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

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

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

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

Total interest expense increased by \$1,060,000, or 13.7%, for the full year of 2017 when compared to 2016, due to higher levels of both deposit and borrowing interest expense. Deposit interest expense in 2017 increased by \$855,000, or 15.8%, due to the higher balance of deposits along with certain indexed money market accounts repricing upward after the Federal Reserve increased interest rates. The Company experienced a \$205,000 increase in the interest cost for borrowings in 2017 primarily due to the immediate impact that the increases in the federal funds rate had on the

cost of overnight borrowed funds as well as matured FHLB term advances that were replaced with advances at higher rates. For the full year of 2017, total average FHLB borrowed funds of \$62.6 million, increased by \$4.9 million, or 8.4%.

## TABLE OF CONTENTS

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

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

The table that follows provides an analysis of net interest income on a tax-equivalent basis setting forth (i) average assets, liabilities, and stockholders' equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables loan balances include non-accrual loans, and interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as interest recorded on certain non-accrual loans as cash is received. Regulatory stock is included within available for sale investment securities for this analysis. Additionally, a tax rate of 21% is used to compute tax-equivalent interest

income and yields during

18

---



TABLE OF CONTENTS

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