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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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). þ Yes o No

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

Indicate by check mark whether the registrant is a large accelerated filer, 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 o Accelerated filer o Non-accelerated filer þ Smaller reporting company þ
Emerging growth company o

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked 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	
Item 1. Business	1
Item 1A. Risk Factors	11
Item 1B. Unresolved Staff Comments	11
Item 2. Properties	11
Item 3. Legal Proceedings	11
Item 4. Mine Safety Disclosures	11
PART II	
Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
Item 6. Selected Consolidated Financial Data	13
Item 7. Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations	14
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	35
Item 8. Financial Statements and Supplementary Data	36
Item 9. Changes in and Disagreements With Accountants On Accounting and Financial Disclosure	93
Item 9A.	93

Controls and Procedures
Item 9B. Other Information 93
PART III
Item 10. Directors, Executive Officers, and Corporate Governance 94
Item 11. Executive Compensation 94
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters 95
Item 13. Certain Relationships and Related Transactions, and Director Independence 95
Item 14. Principal Accountant Fees and Services 95
PART IV
Item 15. Exhibits, Financial Statement Schedules 96
- Signatures 98

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.

1

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

RISK MANAGEMENT OVERVIEW

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

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

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

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

Commercial Loans

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

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

2

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

3

TABLE OF CONTENTS

Investment securities held to maturity at:

	AT DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS)		
Municipal	**$ 24,740**	$ 22,970	$ 13,441
U.S. Agency mortgage-backed securities	**9,983**	9,740	11,177
Corporate bonds and other securities	**6,037**	6,042	6,047
Total cost basis of investment securities held to maturity	**$ 40,760**	$ 38,752	$ 30,665
Total fair value of investment securities held to maturity	**$ 40,324**	$ 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	**$ 10,092**
Over three through six months	**9,581**
Over six through twelve months	**9,480**
Over twelve months	**5,688**
Total	**$ 34,841**

LOANS

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,				
	2018	2017	2016	2015	2014

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

5

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

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.

7

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

9

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

10

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.

11

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
Year ended December 31, 2018:			
First Quarter	**$ 4.20**	**$ 4.00**	**$ 0.015**
Second Quarter	**4.30**	**4.00**	**0.020**
Third Quarter	**4.55**	**4.10**	**0.020**
Fourth Quarter	**4.43**	**3.98**	**0.020**
Year ended December 31, 2017:			
First Quarter	$ 4.00	$ 3.60	$ 0.015
Second Quarter	4.20	3.70	0.015
Third Quarter	4.05	3.80	0.015
Fourth Quarter	4.35	3.85	0.015

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

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

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

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly	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	**3.08**	3.14	3.08	3.33	3.36
Net interest margin	**3.31**	3.32	3.26	3.49	3.52
Allowance for loan losses as a percentage of loans, net of unearned income, at period end	**1.01**	1.15	1.12	1.13	1.16
Non-performing assets as a percentage of loans and other real estate owned, at period end	**0.16**	0.34	0.18	0.71	0.35
Net charge-offs as a percentage of average loans	**0.11**	0.06	0.44	0.11	0.11
Cumulative one year interest rate sensitivity gap ratio, at period end	**1.15**	1.22	1.44	1.23	1.13

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 s the Banking for Life philosophy.

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

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

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

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	**$ 7,768**	$ 3,293	$ 2,310
Diluted earnings per share	**0.43**	0.18	0.12
Return on average assets	**0.67 %**	0.28 %	0.20 %
Return on average equity	**8.08**	3.42	2.30

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

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

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

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

16

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

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

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

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

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

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

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

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

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

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

income and yields during

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.

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.

TABLE OF CONTENTS

	2018 vs. 2017 INCREASE (DECREASE) DUE TO CHANGE IN:			2017 vs. 2016 INCREASE (DECREASE) DUE TO CHANGE IN:		
	AVERAGE VOLUME	RATE	TOTAL	AVERAGE VOLUME	RATE	TOTAL
	(IN THOUSANDS)					
INTEREST EARNED ON:						
Loans, net of unearned income	**$(505)**	**$2,297**	**$1,792**	$271	$1,095	$1,366
Deposits with banks	**(1)**	**10**	**9**	(6)	4	(2)
Short-term investments in money market funds	**(17)**	**88**	**71**	(15)	61	46
Investment securities:						
Available for sale	**292**	**435**	**727**	370	298	668
Held to maturity	**62**	**58**	**120**	376	43	419
Total investment securities	**354**	**493**	**847**	746	341	1,087
Total interest income	**(169)**	**2,888**	**2,719**	996	1,501	2,497
INTEREST PAID ON:						
Interest bearing demand deposits	**46**	**450**	**496**	71	250	321
Savings deposits	**1**		**1**	3		3
Money market	**(120)**	**857**	**737**	(10)	258	248
Other time deposits	**113**	**841**	**954**	10	273	283
Federal funds purchased and other short-term borrowings	**280**	**234**	**514**	68	86	154
Advances from Federal Home Loan Bank	**(10)**	**113**	**103**	(35)	85	50
Subordinated debt					1	1
Total interest expense	**310**	**2495**	**2,805**	107	953	1,060
Change in net interest income	**$(479)**	**$393**	**$(86)**	$889	$548	$1,437

LOAN QUALITY... The Company s written lending policies require underwriting, loan documentation, and credit analysis standards to be met prior to funding any loan. After the loan has been approved and funded, continued periodic credit review is required. The Company s policy is to individually review, as circumstances warrant, each of its commercial and commercial mortgage loans to determine if a loan is impaired. At a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of $250,000 within a 12-month period. The Company has also identified three pools of small dollar value homogeneous loans which are evaluated collectively for impairment. These separate pools are for small business relationships with aggregate balances of $250,000 or less, residential mortgage loans and consumer loans. Individual loans within these pools are reviewed and removed from the pool if factors such as significant delinquency in payments of 90 days or more, bankruptcy, or other negative economic concerns indicate impairment. The following table sets forth information concerning the Company s loan delinquency and other non-performing assets.

TABLE OF CONTENTS

	AT DECEMBER 31,		
	2018	2017	2016
	(IN THOUSANDS, EXCEPT PERCENTAGES)		
Total accruing loans past due 30 to 89 days	**$4,752**	$8,178	$3,278
Total non-accrual loans	**1,221**	3,016	1,603
Total non-performing assets including TDRs[1]	**1,378**	3,034	1,624
Loan delinquency as a percentage of total loans, net of unearned income	**0.55 %**	0.92 %	0.37 %
Non-accrual loans as a percentage of total loans, net of unearned income	**0.14**	0.34	0.18
Non-performing assets as a percentage of total loans, net of unearned income, and other real estate owned	**0.16**	0.34	0.18
Non-performing assets as a percentage of total assets	**0.12**	0.26	0.14
Total classified loans (loans rated substandard or doubtful)	**$4,302**	$5,433	$6,039

(1) Non-performing assets are comprised of (i) loans that are on a non-accrual basis, (ii) loans that are contractually past due 90 days or more as to interest and principal payments, (iii) performing loans classified as troubled debt restructuring and (iv) other real estate owned.

The Company continues to maintain excellent asset quality. Non-performing assets decreased by $1.7 million since the prior year-end and now total $1.4 million. The continued successful ongoing problem credit resolution efforts of the Company is demonstrated in the table above as levels of non-accrual loans, non-performing assets, and loan delinquency are below 1% of total loans. We continue to closely monitor the loan portfolio given the number of relatively large-sized commercial and CRE loans within the portfolio. As of December 31, 2018, the 25 largest credits represented 26.8% of total loans outstanding.

ALLOWANCE AND PROVISION FOR LOAN LOSSES... As described in more detail in the Critical Accounting Policies and Estimates section of this MD&A, the Company uses a comprehensive methodology and procedural discipline to maintain an ALL to absorb inherent losses in the loan portfolio. The Company believes this is a critical accounting policy since it involves significant estimates and judgments. The following table sets forth changes in the ALL and certain ratios for the periods ended.

	YEAR ENDED DECEMBER 31,				
	2018	2017	2016	2015	2014
	(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)				
Balance at beginning of year	**$10,214**	$9,932	$9,921	$9,623	$10,104
Charge-offs:					
Commercial	**(574)**	(311)	(3,662)	(404)	(84)
Commercial loans secured by non-owner occupied real estate		(132)	(82)	(365)	(797)
Real estate residential mortgage	**(380)**	(313)	(208)	(403)	(321)
Consumer	**(251)**	(172)	(344)	(188)	(121)
Total charge-offs	**(1,205)**	(928)	(4,296)	(1,360)	(1,323)
Recoveries:					
Commercial	**31**	27	169	174	190

Commercial loans secured by non-owner occupied real estate	**51**	56	58	76	182
Real estate residential mortgage	**119**	207	100	132	71
Consumer	**61**	120	30	26	24
Total recoveries	**262**	410	357	408	467
Net charge-offs	**(943)**	(518)	(3,939)	(952)	(856)
Provision (credit) for loan losses	**(600)**	800	3,950	1,250	375
Balance at end of year	**$8,671**	$10,214	$9,932	$9,921	$9,623

21

TABLE OF CONTENTS

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

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

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

TABLE OF CONTENTS

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

Even though residential real estate-mortgage loans comprise 27.6% of the Company s total loan portfolio, only $1.2 million or 14.2% of the total ALL is allocated against this loan category. The residential real estate-mortgage loan allocation is based upon the Company s three-year historical average of actual loan charge-offs experienced in that category and other qualitative factors. The disproportionately higher allocations for commercial loans and commercial loans secured by non-owner occupied real estate reflect the increased credit risk associated with those types of lending, the Company s historical loss experience in these categories, and other qualitative factors. The stability in the part of the allowance allocated to each loan category reflects the continued strong asset quality of each sector.

Based on the Company s current ALL methodology and the related assessment of the inherent risk factors contained within the Company s loan portfolio, we believe that the ALL is adequate at December 31, 2018 to cover losses within the Company s loan portfolio.

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

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

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

a $489,000 increase in Wealth Management fees was primarily due to the Company benefitting from increased market values for assets under management in 2018. Wealth management continues to be an important strategic focus as it contributes to non-interest revenue, which comprises over 29% of the Company s total revenue;

a $285,000 increase in other income primarily was due to a $156,000 gain realized on the sale of certain equity method investments that the Company owned from a previous acquisition. The Company also benefitted from higher interchange fees, increased revenue from business services, and higher letter of credit fees;

a combined $279,000 decrease in net gains on loans sold into the secondary market and mortgage related fees was due to lower production and reduced refinance activity of residential mortgage loans;

a $201,000 decrease in revenue from bank owned life insurance (BOLI) occurred after the Company received a death claim in 2017 and there was no such claim this year; and

a $161,000 decrease in revenue from deposit service charges was due to a reduced level of overdraft fee income;

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

a $423,000, or 4.8%, increase in wealth management fees as the Company benefited from additional revenue resulting from a more aggressive business development strategy within its Financial Services Division. The Company also benefited from increased market values for assets under management in 2017.

a $62,000 increase in Bank Owned Life Insurance (BOLI) revenue after the Company received one death claim in 2017.

a $287,000, or 22.9%, decrease in mortgage loan sale gains and mortgage related fees due to reduced refinance activity and a lower level of new mortgage loan originations when compared to 2016.

a $93,000, or 5.6%, decrease in service charges on deposit accounts due to fewer overdraft charges.

a $62,000 decrease in revenue from investment security sale transactions due to the increase in national interest rates which resulted in the market value of existing securities in the Company s portfolio decreasing since last year.

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

a $438,000, or 1.8%, increase in salaries & benefits expense due to higher salaries and incentive compensation as a result of the typical annual salary merit increases and additional incentives paid primarily within our Wealth Management division due to the increased level of fee income mentioned previously. Also in the fourth quarter of 2018, 4 additional employees were hired for our new Hagerstown, Maryland financial banking center; and

a combined $259,000 reduction in occupancy & equipment costs is primarily attributable to the Company s ongoing efforts to carefully manage and contain non-interest expense. Specifically, a branch office closure in Cambria County along with a branch consolidation in the State College market resulted in reduced rent expense and other occupancy related costs;

TABLE OF CONTENTS

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

other expenses were down $413,000, or 7.8%, while professional fees declined by $222,000, or 4.2%, due to lower legal fees and litigation costs and the non-recurrence of costs related to resolving a trust operations trading error in 2016.

occupancy expenses were lower by $182,000, or 6.5%, and equipment costs declined by $103,000, or 6.1%, as a result of the management s continued efforts to control costs. Specifically, a branch consolidation and closure of an unprofitable loan production office were the primary reasons for these expenses decreasing between years.

Total salaries and benefits increased by $93,000, or 0.4%. The increase between years was limited by our ongoing cost control focus despite additional investment in talent, particularly in our wealth management division.

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

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

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

The commercial banking segment reported net income of $7.2 million in 2018 compared to net income of $5.8 million in 2017 and $3.3 million in 2016. The higher level of net income in of 2018 was due to a greater level of loan interest income, the negative provision for loan losses, and lower operating expenses. Total loan interest income increased and reflects new loans originating at higher yields as well as the upward repricing of certain loans tied to LIBOR or the prime rate as both of these indices have moved up with the Federal Reserve s decision to increase the target federal

funds interest rate. The higher loan interest income more than offsets the unfavorable impact of a reduced volume of commercial and commercial real estate loans this year as early loan prepayment activity more than offset loan production. The negative loan loss provision in 2018 reflects our overall strong asset quality, the reduced loan portfolio balances, and the successful

25

TABLE OF CONTENTS

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

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

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

For greater discussion on the future strategic direction of the Company s key business segments, see Management s Discussion and Analysis Forward Looking Statements. For a more detailed analysis of the segment results, see Note 25.

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

The Company s deposits at period end increased by $1.2 million and was more than offset by a decrease in FHLB borrowings ($7.5 million). The decrease in FHLB borrowings occurred in overnight borrowed funds. The FHLB term advances, with maturities between 3 and 5 years, remained relatively stable at $46 million as the Company has utilized these advances to help mitigate interest rate risk. Other liabilities decreased by $3.6 million primarily due to a

decrease in the Company s pension liability. Total stockholders equity increased by $2.9 million since year-end 2017 due to the improved and higher level of earnings in 2018 after, both, earnings and total equity were negatively impacted by the additional income tax charge late in 2017. The higher level of earnings in 2018 also more than offset a negative impact to equity caused by the higher

26

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

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

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

LIQUIDITY... The Company s liquidity position has been strong during the last several years. Our core retail deposit base has remained relatively stable over the past five years and has been adequate to fund the Company s operations. Cash flow from maturities, prepayments and amortization of securities was also used to help fund loan growth. We strive to operate our loan to deposit ratio in a range of 85% to 100%. At December 31, 2018, the Company s loan to deposit ratio was 90.9%. Given current commercial loan pipelines and the continued development of our three existing loan production offices, we are optimistic that we can grow our loan to deposit ratio and remain within our guideline parameters.

Liquidity can also be analysed by utilizing the Consolidated Statements of Cash Flows. Cash and cash equivalents increased by $706,000 from December 31, 2017, to December 31, 2018, due to $8.0 million of cash provided by operating activities and $2.7 million of cash provided by investing activities. This more than offset $10.0 million of cash used in financing activities. Within investing activities, cash advanced for new loan fundings and purchases totaled $169.1 million and was $26.3 million lower than the $195.4 million of cash received from loan principal payments and sales. Within financing activities, deposits increased by $1.2 million. Total FHLB borrowings decreased as advances, both short-term and long term, declined by $7.6 million due to the lower level of total earning assets in 2018.

The holding company had a total of $8.6 million of cash, short-term investments, and investment securities at December 31, 2018. Additionally, dividend payments from our subsidiaries can also provide ongoing cash to the holding company. At December 31, 2018, our subsidiary Bank had $7.3 million of cash available for immediate dividends to the holding company under applicable regulatory formulas. As such, the holding company has strong liquidity to meet its trust preferred debt service requirements, its subordinated debt interest payments, and its common stock dividends, which in total should approximate $2.9 million over the next twelve months.

Financial institutions must maintain liquidity to meet day-to-day requirements of depositors and borrowers, take advantage of market opportunities, and provide a cushion against unforeseen needs. Liquidity needs can be met by

either reducing assets or increasing liabilities. Sources of asset liquidity are provided by short-term investment securities, time deposits with banks, federal funds sold, and short-term investments in money market funds. These assets totaled $35 million and $34 million at December 31, 2018 and 2017, respectively. Maturing and repaying loans, as well as the monthly cash flow associated with mortgage-backed securities and security maturities are other significant sources of asset liquidity for the Company.

27

TABLE OF CONTENTS

Liability liquidity can be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds, or utilizing the facilities of the Federal Reserve or the FHLB systems. The Company utilizes a variety of these methods of liability liquidity. Additionally, the Company s subsidiary bank is a member of the FHLB, which provides the opportunity to obtain short- to longer-term advances based upon the Company s investment in assets secured by one- to four-family residential real estate. At December 31, 2018, the Company had $351 million of overnight borrowing availability at the FHLB, $29 million of short-term borrowing availability at the Federal Reserve Bank and $35 million of unsecured federal funds lines with correspondent banks. The Company believes it has ample liquidity available to fund outstanding loan commitments if they were fully drawn upon.

CAPITAL RESOURCES... The Company meaningfully exceeds all regulatory capital ratios for each of the periods presented and is considered well capitalized. The asset leverage ratio was 9.71% and the risk based capital ratio was 13.53% at December 31, 2018. We anticipate that we will maintain our strong capital ratios throughout 2019.

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

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

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

Capital generated from earnings will be utilized to pay the common stock cash dividend, support the stock repurchase program and will also support controlled balance sheet growth. Our common dividend payout ratio for the full year

2018 was 17.3%. Total Parent Company cash was $8.6 million at December 31, 2018. The Company s capital position will be more than adequate to meet the revised regulatory capital requirements.

28

TABLE OF CONTENTS

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

The following table presents a summary of the Company s static GAP positions at December 31, 2018:

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

When December 31, 2018 is compared to December 31, 2017, the Company s cumulative GAP ratio through one year indicates that the Company s balance sheet is still asset sensitive although the level of asset sensitivity has declined

slightly between years. We continue to see loan customer preference for fixed rate loans given the recent rise in interest rates. The decrease in total deposits resulted in overnight borrowings increasing which are immediately impacted by changes to national interest rates. We continue to have a consistent level of term advances with the FHLB to help manage our interest rate risk position.

29

TABLE OF CONTENTS

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

The following table presents an analysis of the sensitivity inherent in the Company s net interest income and market value of portfolio equity. The interest rate scenarios in the table compare the Company s base forecast, which was prepared using a flat interest rate scenario, to scenarios that reflect immediate interest rate changes of 100 and 200 basis points. Note that we suspended the 200 basis point downward rate shock since it has little value due to the absolute low level of interest rates. Each rate scenario contains unique prepayment and repricing assumptions that are applied to the Company s existing balance sheet that was developed under the flat interest rate scenario.

INTEREST RATE SCENARIO	VARIABILITY OF NET INTEREST INCOME	CHANGE IN MARKET VALUE OF PORTFOLIO EQUITY
200 bp increase	**(0.1)%**	**17.3 %**
100 bp increase	**0.4**	**10.0**
100 bp decrease	**(1.2)**	**(13.8)**

The Company believes that its overall interest rate risk position is well controlled. The variability of net interest income is near neutral in the upward rate shocks due to the impact of the decreasing total loan portfolio balance and the increase to overnight borrowed funds. This is offset by the Company s short duration investment securities portfolio and scheduled repricing of loans tied to LIBOR or prime. Also, the Company will continue its disciplined approach to price its core deposit in a controlled but competitive manner when interest rates rise. The variability of net interest income is negative in the 100 basis point downward rate scenario as the Company has more exposure to assets repricing downward to a greater extent than liabilities due to the absolute low level of interest rates with the fed funds rate currently at a targeted range of 2.25% to 2.50%. The market value of portfolio equity increases in the upward rate shocks due to the improved value of the Company s core deposit base. Negative variability of market value of portfolio equity occurs in the downward rate shock due to a reduced value for core deposits.

Within the investment portfolio at December 31, 2018, 79.2% of the portfolio is classified as available for sale and 20.8% as held to maturity. The available for sale classification provides management with greater flexibility to manage the securities portfolio to better achieve overall balance sheet rate sensitivity goals and provide liquidity if needed. The mark to market of the available for sale securities does inject more volatility in the book value of equity, but has no impact on regulatory capital. There are 176 securities that are temporarily impaired at December 31, 2018. The Company reviews its securities quarterly and has asserted that at December 31, 2018, the impaired value of securities represents temporary declines due to movements in interest rates and the Company does have the ability and intent to hold those securities to maturity or to allow a market recovery. Furthermore, it is the Company s intent to manage its long-term interest rate risk by continuing to sell a portion newly originated fixed-rate 30-year mortgage loans into the secondary market (excluding construction and any jumbo loans). The Company also sells 15-year fixed-rate mortgage loans into the secondary market as well, depending on market conditions. For the year 2018, 78% of all residential mortgage loan production was sold into the secondary market. Given the increase in interest rates that occurred during 2018 and the residential mortgage loan portfolio exhibiting a declining trend, it is anticipated that, although we will continue to sell newly originated residential mortgages into the secondary market, the percentage of

loans sold in 2019 will be reduced.

30

TABLE OF CONTENTS

The amount of loans outstanding by category as of December 31, 2018, which are due in (i) one year or less, (ii) more than one year through five years, and (iii) over five years, are shown in the following table. Loan balances are also categorized according to their sensitivity to changes in interest rates.

	ONE YEAR OR LESS	MORE THAN ONE YEAR THROUGH FIVE YEARS	OVER FIVE YEARS	TOTAL LOANS
	(IN THOUSANDS, EXCEPT RATIOS)			
Commercial and industrial	**$36,303**	**$82,339**	**$39,637**	**$158,279**
Commercial loans secured by owner occupied real estate	**6,244**	**30,506**	**55,155**	**91,905**
Commercial loans secured by non-owner occupied real estate	**44,909**	**104,871**	**206,763**	**356,543**
Real estate residential mortgage				