AMERISERV FINANCIAL INC /PA/
Form 10-Q
August 10, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the period ended June 30, 2018

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	25-1424278
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Main & Franklin Streets, P.O. Box 430, Johnstown, PA	15907-0430
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No
Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

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

Class	Outstanding at August 1, 2018
Common Stock, par value $0.01	18,025,092

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Item 1. Financial Statements

AmeriServ Financial, Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands except shares)

(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from depository institutions	$ 26,971	$ 26,234
Interest bearing deposits	2,838	2,698
Short-term investments in money market funds	5,212	5,256
Total cash and cash equivalents	35,021	34,188
Investment securities:		
Available for sale, at fair value	135,855	129,138
Held to maturity (fair value $38,106 on June 30, 2018 and $38,811 on December 31, 2017)	38,916	38,752
Loans held for sale	3,655	3,125
Loans	891,892	890,032
Less: Unearned income	385	399
Allowance for loan losses	9,521	10,214
Net loans	881,986	879,419
Premises and equipment, net	12,216	12,734
Accrued interest income receivable	3,464	3,603
Goodwill	11,944	11,944
Bank owned life insurance	38,125	37,860
Net deferred tax asset	6,040	5,963
Federal Home Loan Bank stock	5,947	4,675
Federal Reserve Bank stock	2,125	2,125
Other assets	5,216	4,129
TOTAL ASSETS	$ 1,180,510	$ 1,167,655
LIABILITIES		
Non-interest bearing deposits	$ 184,282	$ 183,603
Interest bearing deposits	743,894	764,342
Total deposits	928,176	947,945
Short-term borrowings	82,932	49,084
Advances from Federal Home Loan Bank	43,969	46,229
Guaranteed junior subordinated deferrable interest debentures, net	12,931	12,923
Subordinated debt, net	7,476	7,465
Total borrowed funds	147,308	115,701
Other liabilities	8,143	8,907
TOTAL LIABILITIES	1,083,627	1,072,553

SHAREHOLDERS' EQUITY		
Common stock, par value $0.01 per share; 30,000,000 shares authorized; 26,607,511 shares issued and 18,044,692 outstanding on June 30, 2018; 26,585,403 shares issued and 18,128,247 outstanding on December 31, 2017	266	266
Treasury stock at cost, 8,562,819 shares on June 30, 2018 and 8,457,156 on December 31, 2017	(78,678)	(78,233)
Capital surplus	145,771	145,707
Retained earnings	43,191	40,312
Accumulated other comprehensive loss, net	(13,667)	(12,950)
TOTAL SHAREHOLDERS' EQUITY	96,883	95,102
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,180,510	$ 1,167,655

See accompanying notes to unaudited consolidated financial statements.

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AmeriServ Financial, Inc.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
INTEREST INCOME				
Interest and fees on loans	$ 10,125	$ 9,778	$ 19,943	$ 19,334
Interest bearing deposits	5	3	9	5
Short-term investments in money market funds	47	27	90	51
Investment securities:				
Available for sale	1,101	945	2,130	1,846
Held to maturity	325	298	648	563
Total Interest Income	11,603	11,051	22,820	21,799
INTEREST EXPENSE				
Deposits	1,973	1,504	3,754	2,940
Short-term borrowings	170	67	262	86
Advances from Federal Home Loan Bank	192	171	378	333
Guaranteed junior subordinated deferrable interest debentures	280	280	560	560
Subordinated debt	130	130	260	260
Total Interest Expense	2,745	2,152	5,214	4,179
NET INTEREST INCOME	8,858	8,899	17,606	17,620
Provision for loan losses	50	325	100	550
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,808	8,574	17,506	17,070
NON-INTEREST INCOME				
Wealth management fees	2,447	2,240	4,873	4,550
Service charges on deposit accounts	357	385	740	759
Net gains on sale of loans	119	186	217	300
Mortgage related fees	72	83	111	158
Net realized gains (losses) on investment securities	—	32	(148)	59
Bank owned life insurance	133	310	265	451
Other income	553	519	1,258	1,040
Total Non-Interest Income	3,681	3,755	7,316	7,317
NON-INTEREST EXPENSE				
Salaries and employee benefits	6,218	5,917	12,311	11,865
Net occupancy expense	611	639	1,281	1,313
Equipment expense	378	434	769	853
Professional fees	1,252	1,415	2,436	2,615
Supplies, postage and freight	164	161	332	355

Miscellaneous taxes and insurance	276	311	566	605
Federal deposit insurance expense	155	152	317	312
Other expense	1,256	1,288	2,418	2,484
Total Non-Interest Expense	10,310	10,317	20,430	20,402
PRETAX INCOME	2,179	2,012	4,392	3,985
Provision for income tax expense	435	623	881	1,248
NET INCOME	1,744	1,389	3,511	2,737

See accompanying notes to unaudited consolidated financial statements.

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AmeriServ Financial, Inc.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
PER COMMON SHARE DATA:				
Basic:				
Net income	$ 0.10	$ 0.07	$ 0.19	$ 0.15
Average number of shares outstanding	18,038	18,580	18,058	18,696
Diluted:				
Net income	$ 0.10	$ 0.07	$ 0.19	$ 0.15
Average number of shares outstanding	18,140	18,699	18,158	18,808
Cash dividends declared	$ 0.020	$ 0.015	$ 0.035	$ 0.030

See accompanying notes to unaudited consolidated financial statements.

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AmeriServ Financial, Inc.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
COMPREHENSIVE INCOME				
Net income	$ 1,744	$ 1,389	$ 3,511	$ 2,737
Other comprehensive income (loss), before tax:				
Pension obligation change for defined benefit plan	390	398	1,434	474
Income tax effect	(82)	(136)	(301)	(162)
Unrealized holding gains (losses) on available for sale securities arising during period	(824)	270	(2,490)	362
Income tax effect	173	(92)	523	(122)
Reclassification adjustment for (gains) losses on available for sale securities included in net income	—	(32)	148	(59)
Income tax effect	—	11	(31)	20
Other comprehensive income (loss)	(343)	419	(717)	513
Comprehensive income	$ 1,401	$ 1,808	$ 2,794	$ 3,250

See accompanying notes to unaudited consolidated financial statements.

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AmeriServ Financial, Inc.

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

	Six months ended June 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	$ 3,511	$ 2,737
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	100	550
Depreciation expense	812	862
Net amortization of investment securities	193	238
Net realized (gains) losses on investment securities available for sale	148	(59)
Net gains on loans held for sale	(217)	(300)
Amortization of deferred loan fees	(67)	(85)
Origination of mortgage loans held for sale	(14,768)	(22,687)
Sales of mortgage loans held for sale	14,455	21,451
(Increase) decrease in accrued interest income receivable	139	(215)
Decrease in accrued interest payable	(73)	(148)
Earnings on bank owned life insurance	(265)	(284)
Deferred income taxes	83	613
Stock based compensation expense	64	64
Other, net	(156)	255
Net cash provided by operating activities	3,959	2,992
INVESTING ACTIVITIES		
Purchases of investment securities – available for sale	(22,460)	(22,816)
Purchases of investment securities – held to maturity	(2,405)	(7,790)
Proceeds from sales of investment securities – available for sale	4,479	7,206
Proceeds from maturities of investment securities – available for sale	8,629	12,165
Proceeds from maturities of investment securities – held to maturity	2,193	736
Purchases of regulatory stock	(9,603)	(8,581)
Proceeds from redemption of regulatory stock	8,331	7,638
Long-term loans originated	(83,755)	(81,477)
Principal collected on long-term loans	82,138	76,107
Loans purchased or participated	(2,643)	(4,138)
Loans sold or participated	1,500	—
Proceeds from sale of other real estate owned	22	60
Proceeds from life insurance policies	—	614
Purchases of premises and equipment	(294)	(1,327)

Net cash used in investing activities	(13,868)	(21,603)

See accompanying notes to unaudited consolidated financial statements.

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AmeriServ Financial, Inc.

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

	Six months ended June 30,	
	2018	2017
FINANCING ACTIVITIES		
Net decrease in deposit balances	(19,769)	(11,411)
Net increase in other short-term borrowings	33,848	29,347
Principal borrowings on advances from Federal Home Loan Bank	3,740	4,500
Principal repayments on advances from Federal Home Loan Bank	(6,000)	(5,000)
Purchase of treasury stock	(445)	(1,869)
Common stock dividends	(632)	(563)
Net cash provided by financing activities	10,742	15,004
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	833	(3,607)
CASH AND CASH EQUIVALENTS AT JANUARY 1	34,188	34,073
CASH AND CASH EQUIVALENTS AT JUNE 30	$ 35,021	$ 30,466

See accompanying notes to unaudited consolidated financial statements.

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AmeriServ Financial, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1.
Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AmeriServ Financial, Inc. (the Company) and its wholly-owned subsidiaries, AmeriServ Financial Bank (the Bank), AmeriServ Trust and Financial Services Company (the Trust Company), and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a Pennsylvania state-chartered full service bank with 15 locations in Pennsylvania. The Trust Company offers a complete range of trust and financial services and administers assets valued at $2.2 billion that are not reported on the Company’s Consolidated Balance Sheet at June 30, 2018. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.
In addition, the Parent Company is an administrative group that provides support in such areas as audit, finance, investments, loan review, general services, and marketing. Significant intercompany accounts and transactions have been eliminated in preparing the consolidated financial statements.

2.
Basis of Preparation

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. In the opinion of management, all adjustments consisting of normal recurring entries considered necessary for a fair presentation have been included. They are not, however, necessarily indicative of the results of consolidated operations for a full-year.
For further information, refer to the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

3.
Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the practical measures it may elect at adoption, but does not anticipate the amendment will have a significant impact to the financial statements. Based on the Company’s preliminary analysis of its current portfolio, the Company expects to recognize a right of use asset and a lease liability for its operating leases commitments. The Company also anticipates additional disclosures to be provided at adoption.
In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management’s current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial

assets, as well as the

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expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the impact that the Update will have on our consolidated financial statements. The overall impact of the amendment will be affected by the portfolio composition and quality at the adoption date as well as economic conditions and forecasts at that time.

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

4.
Adoption of Accounting Standards

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

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

The Company has adopted this standard during the reporting period. On a prospective basis, the Company implemented changes to the measurement of the fair value of financial instruments using an exit

price notion for disclosure purposes included in Note 19 to the financial statements. The December 31, 2017, fair value of each class of financial instruments disclosure did not utilize the exit price notion when measuring fair value and, therefore, would not be comparable to the June 30, 2018 disclosure. The Company estimated the fair value based on guidance from ASC 820-10, Fair Value Measurements, which defines fair value as the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is no active observable market for sale information on community bank loans and, thus, Level III fair value procedures were utilized, primarily in the use of present value techniques incorporating assumptions that market participants would use in estimating fair values.

In March 2017, the FASB issued ASU 2017-07, Compensation — Retirement Benefits (Topic 715). The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. The Company adopted the standard on January 1, 2018, which resulted in a reclassification of $22,000 and $(62,000), for the second quarter of 2018 and 2017, respectively, and $44,000 and $(124,000) for the six month period ending June 30, 2018 and 2017, respectively, from Salaries and employee benefits into Other expense on the Consolidated Statement of Operations. See Note 18 for additional information on the presentation of these pension cost components.

5. Revenue Recognition

Management determined that the primary sources of revenue associated with financial instruments, including interest income on loans and investments, along with certain noninterest revenue sources including investment security gains, loan servicing charges, gains on the sale of loans, and bank owned life insurance income are not within the scope of Topic 606. As a result, no changes were made during the period related to these sources of revenue, which cumulatively comprise 78.5% of the total revenue of the Company.

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

- Wealth management fees — Wealth management fee income is primarily comprised of fees earned from the management and administration of trusts and customer investment portfolios. The Company's performance obligation is generally satisfied over a period of time and the resulting fees are billed monthly or quarterly, based upon the month end market value of the assets under management. Payment is generally received after month end through a direct charge to customers' accounts. Other performance obligations (such as delivery of account statements to customers) are generally considered immaterial to the overall transactions price. Commissions on transactions are recognized on a trade-date basis as the performance obligation is satisfied at the point in time in which the trade is processed. Also included within wealth management fees are commissions from the sale of mutual funds, annuities, and life insurance products. Commissions on the sale of mutual funds, annuities, and life insurance products are recognized when sold, which is when the Company has satisfied its performance obligation.

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

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Other noninterest income — Other noninterest income consists of other recurring revenue streams such as safe deposit box rental fees, gain (loss) on sale of other real estate owned and other miscellaneous revenue streams. Safe deposit box rental fees are charged to the customer on an

annual basis and recognized when billed. However, if the safe deposit box rental fee is prepaid (i.e. paid prior to issuance of annual bill), the revenue is recognized upon receipt of payment. The Company has determined that since rentals and renewals occur consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation. Gains and losses on the sale of other real estate owned are recognized at the completion of the property sale when the buyer obtains control of the real estate and all the performance obligations of the Company have been satisfied.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and six month periods ending June 30, 2018 and 2017 (in thousands).

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Noninterest income:				
In-scope of Topic 606				
Wealth management fees	$ 2,447	$ 2,240	$ 4,873	$ 4,550
Service charges on deposit accounts	357	385	740	759
Other	435	431	852	826
Noninterest income (in-scope of topic 606)	3,239	3,056	6,465	6,135
Noninterest income (out-of-scope of topic 606)	442	699	851	1,182
Total noninterest income	$ 3,681	$ 3,755	$ 7,316	$ 7,317

6. Earnings Per Common Share

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are excluded for earnings per share purposes. For the six month period ending June 30, 2017, options to purchase 10,000 common shares, with an exercise price of $4.00, were outstanding but were not included in the computation of diluted earnings per common share because to do so would be antidilutive.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Numerator:				
Net income	$ 1,744	$ 1,389	$ 3,511	$ 2,737
Denominator:				
Weighted average common shares outstanding (basic)	18,038	18,580	18,058	18,696
Effect of stock options	102	119	100	112
Weighted average common shares outstanding (diluted)	18,140	18,699	18,158	18,808
Earnings per common share:				
Basic	$ 0.10	$ 0.07	$ 0.19	$ 0.15

Diluted	0.10	0.07	0.19	0.15

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AmeriServ Financial, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7.
Consolidated Statement of Cash Flows

On a consolidated basis, cash and cash equivalents include cash and due from depository institutions, interest-bearing deposits and short-term investments in money market funds with original maturities at 90 days or less. The Company made $800,000 in income tax payments in the first six months of 2018 and $630,000 in the same 2017 period. The Company made total interest payments of $5,287,000 in the first six months of 2018 compared to $4,328,000 in the same 2017 period. The Company had $160,000 non-cash transfers to other real estate owned (OREO) in the first six months of 2018 compared to $20,000 non-cash transfers in the same 2017 period.

8.
Investment Securities

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

Investment securities available for sale (AFS):

	June 30, 2018			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Agency	$ 6,768	$ —	$ (238)	$ 6,530
US Agency mortgage-backed securities	84,185	313	(1,861)	82,637
Municipal	10,755	29	(392)	10,392
Corporate bonds	36,901	155	(760)	36,296
Total	$ 138,609	$ 497	$ (3,251)	$ 135,855

Investment securities held to maturity (HTM):

	June 30, 2018			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Agency mortgage-backed securities	$ 8,524	$ 79	$ (192)	$ 8,411
Municipal	24,352	50	(679)	23,723
Corporate bonds and other securities	6,040	13	(81)	5,972
Total	$ 38,916	$ 142	$ (952)	$ 38,106

Investment securities available for sale (AFS):

	December 31, 2017			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Agency	$ 6,612	$ —	$ (40)	$ 6,572
US Agency mortgage-backed securities	79,854	611	(719)	79,746
Municipal	7,198	27	(189)	7,036

Corporate bonds	35,886	322	(424)	35,784
Total	$ 129,550	$ 960	$ (1,372)	$ 129,138

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AmeriServ Financial, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Investment securities held to maturity (HTM):

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

Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investor's Service or Standard & Poor's rating of "A." At June 30, 2018, 56.6% of the portfolio was rated "AAA" as compared to 57.8% at December 31, 2017. Approximately 10.7% of the portfolio was either rated below "A" or unrated at June 30, 2018 as compared to 9.7% at December 31, 2017.

The Company sold no AFS securities during the second quarter of 2018. Total proceeds from the sale of AFS securities for the first six months of 2018 were $4.5 million resulting in $15,000 of gross investment security gains and $163,000 of gross investment security losses. The Company sold $1.6 million AFS securities in the second quarter of 2017 resulting in $32,000 of gross investment security gains and sold $7.2 million AFS securities in the first half of 2017 resulting in $59,000 of gross investment security gains.

The book value of securities, both available for sale and held to maturity, pledged to secure public and trust deposits was $99,139,000 at June 30, 2018 and $117,181,000 at December 31, 2017.

The following tables present information concerning investments with unrealized losses as of June 30, 2018 and December 31, 2017 (in thousands):

Total investment securities:

	June 30, 2018					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Agency	$ 4,684	$ (158)	$ 1,846	$ (80)	$ 6,530	$ (238)
US Agency mortgage-backed securities	53,287	(1,273)	18,095	(780)	71,382	(2,053)
Municipal	19,815	(469)	9,465	(602)	29,280	(1,071)
Corporate bonds and other securities	18,520	(371)	12,585	(470)	31,105	(841)
Total	$ 96,306	$ (2,271)	$ 41,991	$ (1,932)	$ 138,297	$ (4,203)

Total investment securities:

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

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

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The unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. There are 208 positions that are considered temporarily impaired at June 30, 2018. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.
Contractual maturities of securities at June 30, 2018 are shown below (in thousands). Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. The weighted average duration of the total investment securities portfolio at June 30, 2018 is 47.2 months and is higher than the duration at December 31, 2017 which was 44.3 months. The duration remains within our internal established guideline range of 24 to 60 months which we believe is appropriate to maintain proper levels of liquidity, interest rate risk, market valuation sensitivity and profitability.
Total investment securities:

	June 30, 2018			
	Available for sale		Held to maturity	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Within 1 year	$ 77	$ 77	$ 1,000	$ 995
After 1 year but within 5 years	18,827	18,618	3,665	3,593
After 5 years but within 10 years	47,901	46,930	14,981	14,656
After 10 years but within15 years	28,160	27,567	14,663	14,351
Over 15 years	43,644	42,663	4,607	4,511
Total	$ 138,609	$ 135,855	$ 38,916	$ 38,106

9.
Loans

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

	June 30, 2018	December 31, 2017
Commercial:		
Commercial and industrial	$ 168,365	$ 159,192
Commercial loans secured by owner occupied real estate	91,170	89,935
Commercial loans secured by non-owner occupied real estate	370,854	373,845
Real estate – residential mortgage	243,467	247,278
Consumer	17,651	19,383
Loans, net of unearned income	$ 891,507	$ 889,633

Loan balances at June 30, 2018 and December 31, 2017 are net of unearned income of $385,000 and $399,000, respectively. Real estate-construction loans comprised 3.9% and 4.1% of total loans, net of unearned income at June 30, 2018 and December 31, 2017, respectively.

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10.
Allowance for Loan Losses

The following tables summarize the rollforward of the allowance for loan losses by portfolio segment for the three and six month periods ending June 30, 2018 and 2017 (in thousands).

	Three months ended June 30, 2018				
	Balance at March 31, 2018	Charge-Offs	Recoveries	Provision (Credit)	Balance at June 30, 2018
Commercial	$ 3,984	$ (412)	$ 4	$ (10)	$ 3,566
Commercial loans secured by non-owner occupied real estate	3,550	—	13	123	3,686
Real estate – residential mortgage	1,267	(103)	67	22	1,253
Consumer	142	(53)	23	13	125
Allocation for general risk	989	—	—	(98)	891
Total	$ 9,932	$ (568)	$ 107	$ 50	$ 9,521

	Three months ended June 30, 2017				
	Balance at March 31, 2017	Charge-Offs	Recoveries	Provision (Credit)	Balance at June 30, 2017
Commercial	$ 4,024	$ —	$ 6	$ (206)	$ 3,824
Commercial loans secured by non-owner occupied real estate	3,746	—	13	729	4,488
Real estate – residential mortgage	1,168	(60)	17	25	1,150
Consumer	149	(33)	43	(20)	139
Allocation for general risk	993	—	—	(203)	790
Total	$ 10,080	$ (93)	$ 79	$ 325	$ 10,391

	Six months ended June 30, 2018				
	Balance at December 31, 2017	Charge-Offs	Recoveries	Provision (Credit)	Balance at June 30, 2018
Commercial	$ 4,298	$ (574)	$ 12	$ (170)	$ 3,566
Commercial loans secured by non-owner occupied real estate	3,666	—	26	(6)	3,686

Real estate – residential mortgage	1,102	(217)	77	291	1,253
Consumer	128	(152)	35	114	125
Allocation for general risk	1,020	—	—	(129)	891
Total	$ 10,214	$ (943)	$ 150	$ 100	$ 9,521

	Six months ended June 30, 2017				
	Balance at December 31, 2016	Charge-Offs	Recoveries	Provision (Credit)	Balance at June 30, 2017
Commercial	$ 4,041	$ —	$ 13	$ (230)	$ 3,824
Commercial loans secured by non-owner occupied real estate	3,584	(14)	24	894	4,488
Real estate – residential mortgage	1,169	(154)	75	60	1,150
Consumer	151	(96)	61	23	139
Allocation for general risk	987	—	—	(197)	790
Total	$ 9,932	$ (264)	$ 173	$ 550	$ 10,391

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The Company recorded a $50,000 provision for loan losses in the second quarter of 2018 compared to a $325,000 provision for loan losses in the second quarter of 2017. For the first six months of 2018, the Company recorded a $100,000 provision for loan losses compared to a $550,000 provision for loan losses in the first six months of 2017. The lower 2018 provision reflects our overall strong asset quality, the successful workout of several criticized loans, and reduced loan portfolio balances. For the first six months of 2018, the Company experienced net loan charge-offs of $793,000, or 0.18% of total loans, compared to net loan charge-offs of $91,000, or 0.02% of total loans, in 2017. The higher 2018 net loan charge-offs reflect the final work-out of several non-performing loans on which reserves had previously been established.
The following tables summarize the loan portfolio and allowance for loan loss by the primary segments of the loan portfolio (in thousands).

	At June 30, 2018					
	Commercial	Commercial Loans Secured by Non-Owner Occupied Real Estate	Real Estate-Residential Mortgage	Consumer	Allocation for General Risk	Total
Loans:						
Individually evaluated for impairment	$ —	$ 12	$ —	$ —		$ 12
Collectively evaluated for impairment	259,535	370,842	243,467	17,651		891,495
Total loans	$ 259,535	$ 370,854	$ 243,467	$ 17,651		$ 891,507
Allowance for loan losses:						
Specific reserve allocation	$ —	$ —	$ —	$ —	$ —	$ —
General reserve allocation	3,566	3,686	1,253	125	891	9,521
Total allowance for loan losses	$ 3,566	$ 3,686	$ 1,253	$ 125	$ 891	$ 9,521

	At December 31, 2017					
	Commercial	Commercial Loans Secured by Non-Owner Occupied Real Estate	Real Estate-Residential Mortgage	Consumer	Allocation for General Risk	Total
Loans:						
Individually evaluated for impairment	$ 1,213	$ 547	$ —	$ —		$ 1,760
Collectively evaluated for impairment	247,914	373,298	247,278	19,383		887,873

Total loans	$ 249,127	$ 373,845	$ 247,278	$ 19,383		$ 889,633
Allowance for loan losses:						
Specific reserve allocation	$ 909	$ —	$ —	$ —	$ —	$ 909
General reserve allocation	3,389	3,666	1,102	128	1,020	9,305
Total allowance for loan losses	$ 4,298	$ 3,666	$ 1,102	$ 128	$ 1,020	$ 10,214

The segments of the Company’s loan portfolio are disaggregated into classes that allows management to monitor risk and performance. The loan classes used are consistent with the internal reports evaluated by the Company’s management and Board of Directors to monitor risk and performance within various segments of its loan portfolio. The commercial loan segment includes both the commercial and industrial and the owner occupied commercial real estate loan classes. The residential mortgage loan segment is comprised of first lien amortizing residential mortgage loans and home equity loans secured by residential real estate. The consumer loan segment consists primarily of installment loans and overdraft lines of credit connected with customer deposit accounts.

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Management evaluates for possible impairment any individual loan in the commercial or commercial real estate segment with a loan balance in excess of $100,000 that is in nonaccrual status or classified as a Troubled Debt Restructure (TDR). Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Company does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a TDR. Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs for collateral dependent loans. The method is selected on a loan-by-loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

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

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

- the passage of time;
- the volatility of the local market;
- the availability of financing;
- natural disasters;
- the inventory of competing properties;
- new improvements to, or lack of maintenance of, the subject property or competing properties upon physical inspection by the Bank;

- changes in underlying economic and market assumptions, such as material changes in current and projected vacancy, absorption rates, capitalization rates, lease terms, rental rates, sales prices, concessions, construction overruns and delays, zoning changes, etc.; and/or

- environmental contamination.

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The value of the property is adjusted to appropriately reflect the above listed factors and the value is discounted to reflect the value impact of a forced or distressed sale, any outstanding senior liens, any outstanding unpaid real estate taxes, transfer taxes and closing costs that would occur with sale of the real estate. If the Assigned Risk Department personnel determine that a reasonable value cannot be derived based on available information, a new appraisal is ordered. The determination of the need for a new appraisal, versus completion of a property valuation by the Bank's Assigned Risk Department personnel rests with the Assigned Risk Department and not the originating account officer.

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

	June 30, 2018				
	Impaired Loans with Specific Allowance		Impaired Loans with no Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
Commercial	$ —	$ —	$ —	$ —	$ —
Commercial loans secured by non-owner occupied real estate	—	—	12	12	34
Total impaired loans	$ —	$ —	$ 12	$ 12	$ 34

	December 31, 2017				
	Impaired Loans with Specific Allowance		Impaired Loans with no Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
Commercial	$ 1,202	$ 909	$ 11	$ 1,213	$ 1,215
Commercial loans secured by non-owner occupied real estate	—	—	547	547	600
Total impaired loans	$ 1,202	$ 909	$ 558	$ 1,760	$ 1,815

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017

Average loan balance:				
Commercial	$ 457	$ 815	$ 709	$ 708
Commercial loans secured by non-owner occupied real estate	13	170	191	173
Average investment in impaired loans	$ 470	$ 985	$ 900	$ 881
Interest income recognized:				
Commercial	$ —	$ —	$ —	$ —
Commercial loans secured by non-owner occupied real estate	—	—	—	—
Interest income recognized on a cash basis on impaired loans	$ —	$ —	$ —	$ —

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

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

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

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

	June 30, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 166,074	$ —	$ 2,291	$ —	$ 168,365
Commercial loans secured by owner occupied real estate	88,419	1,605	1,146	—	91,170
Commercial loans secured by non-owner occupied real estate	358,905	11,659	278	12	370,854
Total	$ 613,398	$ 13,264	$ 3,715	$ 12	$ 630,389

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	December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 156,448	$ 500	$ 2,000	$ 244	$ 159,192
Commercial loans secured by owner occupied real estate	87,215	1,675	759	286	89,935
Commercial loans secured by non-owner occupied real estate	362,805	10,153	874	13	373,845
Total	$ 606,468	$ 12,328	$ 3,633	$ 543	$ 622,972

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

	June 30, 2018	
	Performing	Non-Performing
Real estate – residential mortgage	$ 242,479	$ 988
Consumer	17,651	—
Total	$ 260,130	$ 988

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

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

	June 30, 2018						
	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days Past Due	Total Past Due	Total Loans	90 Days Past Due and Still Accruing
Commercial and industrial	$ 168,365	$ —	$ —	$ —	$ —	$ 168,365	$ —

Commercial loans secured by owner occupied real estate	91,170	—	—	—	—	91,170	—
Commercial loans secured by non – owner occupied real estate	370,773	81	—	—	81	370,854	—
Real estate-residential mortgage	239,471	2,773	371	852	3,996	243,467	—
Consumer	17,600	38	13	—	51	17,651	—
Total	$ 887,379	$ 2,892	$ 384	$ 852	$ 4,128	$ 891,507	$ —

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	December 31, 2017						
	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days Past Due	Total Past Due	Total Loans	90 Days Past Due and Still Accruing
Commercial and industrial	$ 159,181	$ —	$ —	$ 11	$ 11	$ 159,192	$ —
Commercial loans secured by owner occupied real estate	89,649	—	—	286	286	89,935	—
Commercial loans secured by non-owner occupied real estate	368,073	5,238	534	—	5,772	373,845	—
Real estate – residential mortgage	243,393	2,373	671	841	3,885	247,278	—
Consumer	19,262	76	45	—	121	19,383	—
Total	$ 879,558	$ 7,687	$ 1,250	$ 1,138	$ 10,075	$ 889,633	$ —

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

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

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

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

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

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

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

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

	June 30, 2018	December 31, 2017
Non-accrual loans		
Commercial and industrial	$ —	$ 353
Commercial loans secured by owner occupied real estate	—	859
Commercial loans secured by non-owner occupied real estate	12	547
Real estate – residential mortgage	988	1,257
Total	1,000	3,016
Other real estate owned		
Commercial loans secured by owner occupied real estate	157	—
Real estate – residential mortgage	3	18
Total	160	18
TDR's not in non-accrual	—	—
Total non-performing assets including TDR	$ 1,160	$ 3,034
Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned	0.13%	0.34%

The Company had no loans past due 90 days or more for the periods presented which were accruing interest.
The following table sets forth, for the periods indicated, (1) the gross interest income that would have been recorded if non-accrual loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination if held for part of the period, (2) the amount of interest income actually recorded on such loans, and (3) the net reduction in interest income attributable to such loans (in thousands).

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Interest income due in accordance with original terms	$ 22	$ 17	$ 49	$ 33
Interest income recorded	—	—	—	—
Net reduction in interest income	$ 22	$ 17	$ 49	$ 33

Consistent with accounting and regulatory guidance, the Bank recognizes a TDR when the Bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the Bank's objective in offering a TDR is to increase the probability of repayment of the borrower's loan.
The Company had no loans modified as TDRs during the three and six month periods ending June 30, 2018.
The following table details the loans modified as TDRs during the three and six month periods ended June 30, 2017 (dollars in thousands).

Loans in non-accrual status	Concession Granted

	# of Loans	Current Balance	
Commercial loan	2	$ 678	Extension of maturity date with interest only period

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In all instances where loans have been modified in troubled debt restructurings the pre- and post-modified balances are the same. As of June 30, 2018, there was no specific ALL for the one loan modified as a TDR. The specific ALL reserve for loans modified as TDR's was $467,000 as of June 30, 2017. All TDR's are individually evaluated for impairment and a related allowance is recorded, as needed.

The Company had no loans that were classified as TDR's or were subsequently modified during each 12-month period prior to the current reporting periods, which begin January 1, 2018 and 2017 (six month periods) and April 1, 2018 and 2017 (three month periods), respectively, and that subsequently defaulted during these reporting periods.

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

12.

Federal Home Loan Bank Borrowings

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

	At June 30, 2018		
Type	Maturing	Amount	Weighted Average Rate
Open Repo Plus	Overnight	$ 82,932	2.10%
Advances	2018	6,000	1.54
	2019	12,500	1.51
	2020	16,729	1.74
	2021	6,000	1.90
	2022	2,740	2.77
Total advances		43,969	1.73
Total FHLB borrowings		$ 126,901	1.97%

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

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

collateral to the FHLB of Pittsburgh to support these borrowings.

13.
Accumulated Other Comprehensive Loss

The following table presents the changes in each component of accumulated other comprehensive loss, net of tax, for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three months ended June 30, 2018			Three months ended June 30, 2017		
	Net Unrealized Gains and (Losses) on Investment Securities AFS(1)	Defined Benefit Pension Items(1)	Total(1)	Net Unrealized Gains and (Losses) on Investment Securities AFS(1)	Defined Benefit Pension Items(1)	Total(1)
Beginning balance	$ (1,526)	$ (11,798)	$ (13,324)	$ (127)	$ (11,356)	$ (11,483)
Other comprehensive income (loss) before reclassifications	(651)	308	(343)	178	262	440
Amounts reclassified from accumulated other comprehensive loss	—	—	—	(21)	—	(21)
Net current period other comprehensive income (loss)	(651)	308	(343)	157	262	419
Ending balance	$ (2,177)	$ (11,490)	$ (13,667)	$ 30	$ (11,094)	$ (11,064)

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

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Net Unrealized Gains and (Losses) on Investment Securities AFS(1)	Defined Benefit Pension Items(1)	Total(1)	Net Unrealized Gains and (Losses) on Investment Securities AFS(1)	Defined Benefit Pension Items(1)	Total(1)

Beginning balance	$ (327)	$ (12,623)	$ (12,950)	$ (171)	$ (11,406)	$ (11,577)
Other comprehensive income (loss) before reclassifications	(1,967)	616	(1,351)	240	522	762
Amounts reclassified from accumulated other comprehensive loss	117	517	634	(39)	(210)	(249)
Net current period other comprehensive income (loss)	(1,850)	1,133	(717)	201	312	513
Ending balance	$ (2,177)	$ (11,490)	$ (13,667)	$ 30	$ (11,094)	$ (11,064)

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

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The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the three and six months ended June 30, 2018 and 2017 (in thousands):

Details about accumulated other comprehensive loss components	Amount reclassified from accumulated other comprehensive loss(1)		Affected line item in the consolidated statement of operations
	For the three months ended June 30, 2018	For the three months ended June 30, 2017	
Realized gains on sale of securities	$ —	$ (32)	Net realized gains on investment securities
	—	11	Provision for income tax expense
	$ —	$ (21)	Net of tax
Total reclassifications for the period	$ —	$ (21)	Net income

(1) Amounts in parentheses indicate credits.

Details about accumulated other comprehensive loss components	Amount reclassified from accumulated other comprehensive loss(1)		Affected line item in the consolidated statement of operations
	For the six months ended June 30, 2018	For the six months ended June 30, 2017	
Realized (gains) losses on sale of securities	$ 148	$ (59)	Net realized (gains) losses on investment securities
	(31)	20	Provision for income tax expense
	$ 117	$ (39)	Net of tax
Amortization of estimated defined benefit pension plan loss	$ 654	$ (318)	Other expense
	(137)	108	Provision for income taxes
	$ 517	$ (210)	Net of tax
Total reclassifications for the period	$ 634	$ (249)	Net income

(1)
Amounts in parentheses indicate income and other amounts indicate expenses.

14.
Regulatory Capital

The Company is subject to various capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. For a more detailed discussion see the Capital Resources section of the MD&A.
Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, Tier 1 capital to average assets, and common equity Tier I capital (as defined in the regulations) to risk-weighted assets (RWA) (as defined). Additionally under Basel III rules, the decision was
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made to opt-out of including accumulated other comprehensive income in regulatory capital. As of June 30, 2018, the Bank was categorized as "Well Capitalized" under the regulatory framework for prompt corrective action promulgated by the Federal Reserve. The Company believes that no conditions or events have occurred that would change this conclusion as of such date. To be categorized as Well Capitalized, the Bank must maintain minimum Total Capital, Common Equity Tier 1 Capital, Tier 1 Capital, and Tier 1 leverage ratios as set forth in the table (in thousands, except ratios).

At June 30, 2018

	COMPANY		BANK		MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES	TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION REGULATIONS*
	AMOUNT	RATIO	AMOUNT	RATIO	RATIO	RATIO
Total Capital (To Risk Weighted Assets)	$ 128,381	13.01%	$ 113,876	11.59%	8.00%	10.00%
Tier 1 Common Equity (To Risk Weighted Assets)	98,606	9.99	103,441	10.53	4.50	6.50
Tier 1 Capital (To Risk Weighted Assets)	110,470	11.20	103,441	10.53	6.00	8.00
Tier 1 Capital (To Average Assets)	110,470	9.61	103,441	9.12	4.00	5.00

At December 31, 2017

	COMPANY		BANK		MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES	TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION REGULATIONS*
	AMOUNT	RATIO	AMOUNT	RATIO	RATIO	RATIO
Total Capital (To Risk Weighted Assets)	$ 126,276	13.21%	$ 110,681	11.64%	8.00%	10.00%
Tier 1 Common Equity (To Risk Weighted Assets)	95,882	10.03	99,552	10.47	4.50	6.50
Tier 1 Capital (To Risk Weighted Assets)	107,682	11.26	99,552	10.47	6.00	8.00

Tier 1 Capital (To Average Assets)	107,682	9.32	99,552	8.75	4.00	5.00

*
Applies to the Bank only.

Additionally, while not a regulatory capital ratio, the Company’s tangible common equity ratio was 7.27% at June 30, 2018. See the discussion of the tangible common equity ratio under the “Balance Sheet” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations (M.D. & A.).

15.
Derivative Hedging Instruments

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

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To accommodate the needs of our customers and support the Company’s asset/liability positioning, we may enter into interest rate swap agreements with customers and a large financial institution that specializes in these types of transactions. These arrangements involve the exchange of interest payments based on the notional amounts. The Company entered into floating rate loans and fixed rate swaps with our customers. Simultaneously, the Company entered into offsetting fixed rate swaps with Pittsburgh National Bank (PNC). In connection with each swap transaction, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on the same notional amount at a fixed interest rate. At the same time, the Company agrees to pay PNC the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. These transactions allow the Company’s customers to effectively convert a variable rate loan to a fixed rate. Because the Company acts as an intermediary for its customers, changes in the fair value of the underlying derivative contracts offset each other and do not significantly impact the Company’s results of operations.

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

	At June 30, 2018				
	HEDGE TYPE	AGGREGATE NOTIONAL AMOUNT	WEIGHTED AVERAGE RATE RECEIVED/(PAID)	REPRICING FREQUENCY	INCREASE (DECREASE) IN INTEREST EXPENSE
SWAP ASSETS	FAIR VALUE	$ 16,680,569	4.04%	MONTHLY	$ (33,446)
SWAP LIABILITIES	FAIR VALUE	(16,680,569)	(4.04)	MONTHLY	33,446
NET EXPOSURE		—	—		—

	At June 30, 2017				
	HEDGE TYPE	AGGREGATE NOTIONAL AMOUNT	WEIGHTED AVERAGE RATE RECEIVED/(PAID)	REPRICING FREQUENCY	INCREASE (DECREASE) IN INTEREST EXPENSE
SWAP ASSETS	FAIR VALUE	$ 10,998,027	3.22%	MONTHLY	$ (42,160)
SWAP LIABILITIES	FAIR VALUE	(10,998,027)	(3.22)	MONTHLY	42,160
NET EXPOSURE		—	—		—

The Company monitors and controls all derivative products with a comprehensive Board of Director approved hedging policy. This policy permits a total maximum notional amount outstanding of $500 million for interest rate swaps, interest rate caps/floors, and swaptions. All hedge transactions must be approved in advance by the Investment Asset/Liability Committee (ALCO) of the Board of Directors, unless otherwise approved, as per the terms, within the Board of Directors approved Hedging Policy. The Company had no caps or floors outstanding at June 30, 2018.

16.
Segment Results

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

Retail banking includes the deposit-gathering branch franchise and lending to both individuals and small businesses. Lending activities include residential mortgage loans, direct consumer loans, and local business commercial loans. Commercial banking to businesses includes commercial loans, business services,

and CRE loans. The wealth management segment includes the Trust Company, West Chester Capital Advisors (WCCA), our registered investment advisory firm, and Financial Services. Wealth management 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. Financial Services include the sale of mutual funds, annuities, and insurance products. The wealth management businesses also includes the union collective investment funds, primarily the ERECT fund which are designed to use union pension dollars in construction projects that utilize union labor. The investment/parent includes the net results of investment securities and borrowing activities, general corporate expenses not allocated to the business segments, interest expense on corporate debt, and centralized interest rate risk management. Inter-segment revenues were not material.

The contribution of the major business segments to the Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017 were as follows (in thousands):

	Three months ended June 30, 2018		Six months ended June 30, 2018	
	Total revenue	Net income (loss)	Total revenue	Net income (loss)
Retail banking	$ 6,220	$ 754	$ 12,358	$ 1,460
Commercial banking	4,512	1,640	8,967	3,200
Wealth management	2,466	432	4,909	940
Investment/Parent	(659)	(1,082)	(1,312)	(2,089)
Total	$ 12,539	$ 1,744	$ 24,922	$ 3,511

	Three months ended June 30, 2017		Six months ended June 30, 2017	
	Total revenue	Net income (loss)	Total revenue	Net income (loss)
Retail banking	$ 6,452	$ 748	$ 12,695	$ 1,365
Commercial banking	4,822	1,411	9,547	2,883
Wealth management	2,255	289	4,581	656
Investment/Parent	(875)	(1,059)	(1,886)	(2,167)
Total	$ 12,654	$ 1,389	$ 24,937	$ 2,737

17.
Commitments and Contingent Liabilities

The Company had various outstanding commitments to extend credit approximating $192.5 million and $165.1 million along with standby letters of credit of $10.1 million and $10.0 million as of June 30, 2018 and December 31, 2017, respectively. The Company’s exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Bank uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending.

Additionally, the Company is also subject to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of the Company, neither the resolution of these claims nor the funding of these credit commitments will have a material adverse effect on the Company's consolidated financial position, results of operation or cash flows.

18.

Pension Benefits

The Company has a noncontributory defined benefit pension plan covering certain employees who work at least 1,000 hours per year. The participants shall have a vested interest in their accrued benefit after

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five full years of service. The benefits of the plan are based upon the employee's years of service and average annual earnings for the highest five consecutive calendar years during the final ten year period of employment. Plan assets are primarily debt securities (including US Treasury and Agency securities, corporate notes and bonds), listed common stocks (including shares of AmeriServ Financial, Inc. common stock which is limited to 10% of the plan's assets), mutual funds, and short-term cash equivalent instruments. The net periodic pension cost for the three and six months ended June 30, 2018 and 2017 were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Components of net periodic benefit cost				
Service cost	$ 409	$ 390	$ 818	$ 780
Interest cost	303	326	606	652
Expected return on plan assets	(711)	(631)	(1,422)	(1,262)
Recognized net actuarial loss	386	367	772	734
Net periodic pension cost	$ 387	$ 452	$ 774	$ 904

The service cost component of net periodic benefit cost is included in "Salaries and employee benefits" and all other components of net periodic benefit cost are included in "Other expense" in the Consolidated Statements of Operations. The Company implemented a soft freeze of its defined benefit pension plan to provide that non-union employees hired on or after January 1, 2013 and union employees hired on or after January 1, 2014 are not eligible to participate in the pension plan. Instead, such employees are eligible to participate in a qualified 401(k) plan. This change was made to help reduce pension costs in future periods.

19.
Disclosures about Fair Value Measurements and Financial Instruments

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

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

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

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

Assets and Liability Measured and Recorded on a Recurring Basis

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

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The following tables present the assets measured and recorded on the Consolidated Balance Sheets on a reoccurring basis at their fair value as of June 30, 2018 and December 31, 2017, by level within the fair value hierarchy (in thousands).

	Fair Value Measurements at June 30, 2018			
	Total	(Level 1)	(Level 2)	(Level 3)
US Agency securities	$ 6,530	$ —	$ 6,530	$ —
US Agency mortgage-backed securities	82,637	—	82,637	—
Municipal securities	10,392	—	10,392	—
Corporate bonds	36,296	—	36,296	—
Fair value swap asset	657	—	657	—
Fair value swap liability	(657)	—	(657)	—

	Fair Value Measurements at December 31, 2017			
	Total	(Level 1)	(Level 2)	(Level 3)
US Agency securities	$ 6,572	$ —	$ 6,572	$ —
US Agency mortgage-backed securities	79,746	—	79,746	—
Municipal securities	7,036	—	7,036	—
Corporate bonds	35,784	—	35,784	—
Fair value swap asset	92	—	92	—
Fair value swap liability	(92)	—	(92)	—

Assets Measured and Recorded on a Non-recurring Basis

Loans considered impaired are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. As detailed in the allowance for loan loss footnote, impaired loans are reported at fair value of the underlying collateral if the repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on observable market data which at times are discounted. At June 30, 2018, impaired loans with a carrying value of $12,000 had no specific valuation allowance resulting in a net fair value of $12,000. At December 31, 2017, impaired loans with a carrying value of $1.8 million were reduced by a specific valuation allowance totaling $909,000 resulting in a net fair value of $851,000.

Other real estate owned is measured at fair value based on appraisals, less estimated cost to sell. Valuations are periodically performed by management. Income and expenses from operations and changes in valuation allowance are included in the net expenses from OREO.

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

	Fair Value Measurements at June 30, 2018			
	Total	(Level 1)	(Level 2)	(Level 3)
Impaired loans	$ 12	$ —	$ —	$ 12
Other real estate owned	160	—	—	160

	Fair Value Measurements at December 31, 2017			
	Total	(Level 1)	(Level 2)	(Level 3)
Impaired loans	$ 851	$ —	$ —	$ 851
Other real estate owned	18	—	—	18

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	Quantitative Information About Level 3 Fair Value Measurements			
June 30, 2018	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Wgtd Avg)
Impaired loans	$ 12	Appraisal of collateral(1),(3)	Appraisal adjustments(2)	0% (0%)
Other real estate owned	160	Appraisal of collateral (1),(3)	Appraisal adjustments(2) Liquidation expenses	0% to 25% (4%) 0% to 186% (34%)

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

(1)
Fair Value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.

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

(3)
Includes qualitative adjustments by management and estimated liquidation expenses.

FAIR VALUE OF FINANCIAL INSTRUMENTS
For the Company, as for most financial institutions, approximately 90% of its assets and liabilities are considered financial instruments. Many of the Company's financial instruments, however, lack an available trading market characterized by a willing buyer and willing seller engaging in an exchange transaction. Therefore, significant estimates and present value calculations were used by the Company for the purpose of this disclosure.
Fair values have been determined by the Company using independent third party valuations that use the best available data (Level 2) and an estimation methodology (Level 3) the Company believes is suitable for each category of financial instruments. Management believes that cash, cash equivalents, bank owned life insurance, regulatory stock, accrued interest receivable and payable, short term borrowings, and loans and deposits with floating interest rates have estimated fair values which approximate the recorded book balances.

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The estimation methodologies used, the estimated fair values based on US GAAP measurements, and recorded book balances at June 30, 2018 and December 31, 2017, for financial instruments not recorded at fair value on a reoccurring basis were as follows (in thousands):

	June 30, 2018				
	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
FINANCIAL ASSETS:					
Cash and cash equivalents	$ 35,021	$ 35,021	$ 35,021	$ —	$ —
Investment securities – HTM	38,916	38,106	—	35,142	2,964
Regulatory stock	8,072	8,072	8,072	—	—
Loans held for sale	3,655	3,734	3,734	—	—
Loans, net of allowance for loan loss and unearned income	881,986	866,446	—	—	866,446
Accrued interest income receivable	3,464	3,464	3,464	—	—
Bank owned life insurance	38,125	38,125	38,125	—	—
FINANCIAL LIABILITIES:					
Deposits with no stated maturities	$ 663,357	$ 663,357	$ 663,357	$ —	$ —
Deposits with stated maturities	264,819	264,016	—	—	264,016
Short-term borrowings	82,932	82,932	82,932	—	—
All other borrowings	64,376	66,918	—	—	66,918
Accrued interest payable	1,681	1,681	1,681	—	—

	December 31, 2017				
	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
FINANCIAL ASSETS:					
Cash and cash equivalents	$ 34,188	$ 34,188	$ 34,188	$ —	$ —
Investment securities – HTM	38,752	38,811	—	35,859	2,952
Regulatory stock	6,800	6,800	6,800	—	—
Loans held for sale	3,125	3,173	3,173	—	—
Loans, net of allowance for loan loss and unearned income	879,419	873,784	—	—	873,784
Accrued interest income receivable	3,603	3,603	3,603	—	—
Bank owned life insurance	37,860	37,860	37,860	—	—
FINANCIAL LIABILITIES:					
Deposits with no stated maturities	$ 688,648	$ 688,648	$ 688,648	$ —	$ —
Deposits with stated maturities	259,297	260,153	—	—	260,153
Short-term borrowings	49,084	49,084	49,084	—	—
All other borrowings	66,617	69,684	—	—	69,684
Accrued interest payable	1,754	1,754	1,754	—	—

The fair value of cash and cash equivalents, regulatory stock, accrued interest income receivable, short-term borrowings, and accrued interest payable are equal to the current carrying value.

The fair value of investment securities is equal to the available quoted market price for similar securities. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the US Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. The Level 3 securities are valued by discounted cash flows using the US Treasury rate for the remaining term of the securities.

Loans held for sale are priced individually at market rates on the day that the loan is locked for commitment with an investor. All loans in the held for sale account conform to Fannie Mae underwriting guidelines, with the specific intent of the loan being purchased by an investor at the predetermined rate structure. Loans in the held for sale account have specific delivery dates that must be executed to protect the pricing commitment (typically a 30, 45, or 60 day lock period).

The net loan portfolio has been valued using a present value discounted cash flow. The discount rate used in these calculations is based upon the treasury yield curve adjusted for non-interest operating costs, credit loss, current market prices and assumed prepayment risk. In accordance with ASU 2016-01, the discount rates used to determine fair value incorporate interest rate spreads that reflect factors such as liquidity, credit, and nonperformance risk of the loans.

The fair value of bank owned life insurance is based upon the cash surrender value of the underlying policies and matches the book value.

Deposits with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities. Deposits with no stated maturities have an estimated fair value equal to both the amount payable on demand and the recorded book balance.

The fair value of all other borrowings is based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities.

The fair values of the fair value swaps used for interest rate risk management represents the amount the Company would have expected to receive or pay to terminate such agreements.

Commitments to extend credit and standby letters of credit are financial instruments generally not subject to sale, and fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, is not considered material for disclosure. The contractual amounts of unfunded commitments are presented in Note 17.

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

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("M.D. & A.")

…2018 SECOND QUARTER SUMMARY OVERVIEW… AmeriServ reported second quarter 2018 earnings of $1,744,000 or $0.10 per share. This is the Company's second consecutive quarter with earnings per share of $0.10. This represents a 25.6% or $355,000 improvement over the second quarter of 2017 where net income totaled $1,389,000 or $0.07 per diluted common share. When combined with the results in the first quarter, AmeriServ has now surpassed the first six months of 2017 by 28.3% or $774,000, a gain of $0.04 per share.

We are, of course, aware that there will be skeptics who will write these gains off solely to the impact of the new reduced tax rates. There is no question that tax rates are of great importance to our industry but there was much more happening at AmeriServ during the second quarter. For example, AmeriServ recorded the highest level of loan interest revenue since the fourth quarter of 2009. Concurrently, the Company reported the lowest level of troubled loans on record. While these positive trends were occurring, AmeriServ continued to lend over 90% of its deposit base to small and medium sized businesses and consumers in our markets. This percentage has consistently been 7 – 10% above AmeriServ's peer banks. We believe it is our responsibility to help build prosperous communities.

On yet another front, our wealth management subsidiary, AmeriServ Trust & Financial Services Company, is now responsible for managing and/or administrating over $2 billion in client assets. So as to help its clients even more, it opened a customer convenience office in busy downtown Greensburg, PA. This is the county seat of Westmoreland County which is benefitting from the expansion of Pittsburgh further east. AmeriServ's wealth management company also remains the fiduciary of The ERECT Fund which is very active in Pittsburgh rehabilitating older buildings to be occupied by the continuing growth in technology activities, such as robotics. The city of Pittsburgh has become somewhat of a hub for new technology due to the expertise resident at Carnegie Mellon University.

One of the foremost goals in our strategic direction is to emphasize shareholder return. After reviewing this series of positive developments thus far in 2018, the Board unanimously approved another common stock repurchase plan. We have the approval of the regulatory authorities to buy back up to 3% or 540,000 shares of AmeriServ common stock. If completed, this will reduce the number of outstanding shares below 18 million thus causing every remaining shareholder to own a larger portion of AmeriServ.

Now a comment on the business of banking. You have probably seen the reports of lagging bank loan demand around the nation. Certainly we experienced the usual cold and stormy winter and we also noted some confusion among commercial enterprises as to the details of the new tax law. But loans at AmeriServ have been growing every month since March 2018. Deposit totals have been fluctuating but continue to remain near $1 billion as they have throughout 2017 and now 2018.

This series of positive results, and the announcement of another stock repurchase program, suggest a positive potential for AmeriServ. Rest assured there will be no "bet the bank" strategies. We will continue to seek to balance risk with return as we continue to share the rewards with our shareholders.

THREE MONTHS ENDED JUNE 30, 2018 VS. THREE MONTHS ENDED JUNE 30, 2017

…PERFORMANCE OVERVIEW…The following table summarizes some of the Company's key performance indicators (in thousands, except per share and ratios).

	Three months ended June 30, 2018	Three months ended June 30, 2017
Net income	$ 1,744	$ 1,389
Diluted earnings per share	0.10	0.07
Return on average assets (annualized)	0.60%	0.48%
Return on average equity (annualized)	7.30%	5.81%

The Company reported second quarter 2018 net income of $1,744,000, or $0.10 per diluted common share. This earnings performance was a $355,000, or 25.6%, improvement from the second quarter of 2017 where net income totaled $1,389,000, or $0.07 per diluted common share. The improved earnings in the second quarter of 2018 resulted from a combination of lower income tax expense, outstanding asset quality and effective capital management.

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…NET INTEREST INCOME AND MARGIN… The Company's net interest income represents the amount by which interest income on average earning assets exceeds interest paid on average interest bearing liabilities. Net interest income is a primary source of the Company's earnings, and it is effected by interest rate fluctuations as well as changes in the amount and mix of average earning assets and average interest bearing liabilities. The following table compares the Company's net interest income performance for the second quarter of 2018 to the second quarter of 2017 (in thousands, except percentages):

	Three months ended June 30, 2018	Three months ended June 30, 2017	$ Change	% Change
Interest income	$ 11,603	$ 11,051	$ 552	5.0%
Interest expense	2,745	2,152	593	27.6
Net interest income	$ 8,858	$ 8,899	$ (41)	(0.5)
Net interest margin	3.28%	3.27%	0.01	N/M

N/M — not meaningful

The Company's net interest income in the second quarter of 2018 decreased by $41,000, or 0.5%, from the prior year's second quarter. The decrease in net interest income is a result of a lower level of total earning assets. Total average earning assets decreased in the second quarter of 2018 by $8.4 million, or 0.8%. The decrease in earning assets occurred in the loan portfolio as loan pay-offs exceeded new loan production during 2018. This more than offset continued growth in investment securities as management took advantage of the higher interest rate environment in 2018 to purchase additional securities and increase the size of the investment securities portfolio. Specifically, total investment securities averaged $183 million in the second quarter of 2018 which was $9.7 million, or 5.6%, higher than the $173 million average for the second quarter of 2017. Total loans averaged $883 million for the second quarter of 2018 which was $17.5 million, or 1.9%, lower than the 2017 second quarter average. The Company's net interest margin was 3.28% for the second quarter representing an improvement of one basis point from the prior year's second quarter.

The growth in the investment securities portfolio is the result of additional purchases of federal agency mortgage backed securities. Also, management continues its portfolio diversification strategy through purchases of high quality corporate and taxable municipal securities. As a result, interest income on investments increased between the second quarter of 2018 and the second quarter of 2017 by $205,000, or 16.1%. The combination of a higher level of early loan payoffs and a slowdown in loan production, particularly earlier this year, resulted in the decrease in the average balance of the loan portfolio. However, commercial loan production increased during the latter part of the second quarter of 2018 resulting in the total loans outstanding being comparable between years on an end of period basis. As a result of the strength of the current loan pipelines and the positive late second quarter momentum, the Company expects that loan portfolio growth will continue in the second half of 2018. This second quarter growth occurred primarily in commercial real estate loans and commercial/industrial loans which together comprise approximately 72% of the Company's total loan portfolio. Even though total average loans have decreased since last year, loan interest income increased by $347,000, or 3.5%, between the second quarter of 2018 and the second quarter of 2017. 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 decision to increase the target federal funds interest rate. Overall, total interest income increased by $552,000, or 5.0%, in the second quarter of 2018, as compared to the same period in 2017.

Total interest expense for the second quarter of 2018 increased by $593,000, or 27.6% when compared to the second quarter of 2017, due to higher levels of both deposit and borrowing interest expense. The higher 2018 deposit interest expense of $469,000 reflects certain indexed money market accounts repricing upward after the Federal Reserve interest rate increases. Additionally, there has been customer movement of some funds out of lower yielding money market accounts into higher yielding certificates of deposit due to the higher national interest rate environment in 2018. 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, total deposits averaged $956 million for the second

quarter of 2018 which was
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$19.0 million, or 2.0%, lower than the $975 million average for the second quarter of 2017. Overall, the Company's loan to deposit ratio averaged 92.4% in the second quarter of 2018 which indicates that the Company has ample capacity to grow its loan portfolio given the loyalty of its core deposit base. The Company experienced a $124,000, or 19.1%, increase in the interest cost for borrowings in the second quarter 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 borrowed funds. In the second quarter of 2018, total average FHLB borrowed funds was $79 million, an increase of $8.8 million, or 12.5%, from the same period during 2017, which was due to the decrease in total average deposits.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the three month periods ended June 30, 2018 and 2017 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) the Company's 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) the Company's net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables, loan balances do 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. Additionally, a tax rate of 21% is used to compute tax-equivalent interest income and yields during 2018, while a tax rate of 34% was used for 2017.

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Three months ended June 30 (In thousands, except percentages)

	2018			2017		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Interest earning assets:						
Loans and loans held for sale, net of unearned income	$ 882,675	$ 10,130	4.56%	$ 900,156	$ 9,788	4.32%
Interest bearing deposits	1,025	5	1.77	1,030	3	1.03
Short-term investment in money market funds	6,645	47	2.77	7,285	27	1.46
Investment securities – AFS	143,357	1,101	3.07	135,168	945	2.80
Investment securities – HTM	39,264	325	3.31	37,740	298	3.16
Total investment securities	182,621	1,426	3.12	172,908	1,243	2.87
Total interest earning assets/interest income	1,072,966	11,608	4.31	1,081,379	11,061	4.07
Non-interest earning assets:						
Cash and due from banks	21,857			22,231		
Premises and equipment	12,345			12,013		
Other assets	62,406			67,628		
Allowance for loan losses	(10,035)			(10,281)		
TOTAL ASSETS	$ 1,159,539			$ 1,172,970		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	$ 129,026	$ 261	0.81%	$ 130,744	$ 148	0.45%
Savings	99,268	41	0.17	98,119	41	0.17
Money markets	248,983	601	0.97	274,116	333	0.48
Time deposits	295,164	1,070	1.45	290,910	982	1.34
Total interest bearing deposits	772,441	1,973	1.02	793,889	1,504	0.76
Short-term borrowings	33,731	170	1.99	24,127	67	1.10
Advances from Federal Home Loan Bank	44,998	192	1.71	45,824	171	1.49
Guaranteed junior subordinated deferrable interest debentures	13,085	280	8.57	13,085	280	8.57
Subordinated debt	7,650	130	6.80	7,650	130	6.80
Total interest bearing liabilities/interest expense	871,905	2,745	1.26	884,575	2,152	0.98
Non-interest bearing liabilities:						
Demand deposits	183,323			180,885		
Other liabilities	8,471			11,646		
Shareholders' equity	95,840			95,864		

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,159,539			$ 1,172,970		
Interest rate spread			3.05			3.09
Net interest income/Net interest margin		8,863	3.28%		8,909	3.27%
Tax-equivalent adjustment		(5)			(10)	
Net Interest Income		$ 8,858			$ 8,899	

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…PROVISION FOR LOAN LOSSES… The Company recorded a $50,000 provision for loan losses in the second quarter of 2018 compared to a $325,000 provision for loan losses in the second quarter of 2017. The lower 2018 provision reflects our overall strong asset quality, the successful workout of several criticized loans, and reduced loan portfolio balances. The Company experienced net loan charge-offs of $461,000, or 0.21% of total loans, in 2018 compared to net loan charge-offs of $14,000, or 0.01% of total loans, in 2017. The higher 2018 net loan charge-offs reflect the final work-out of several non-performing loans on which reserves had previously been established. The Company presently expects that net charge-offs will decline in the second half of 2018. Overall, the Company continued to maintain strong asset quality as its nonperforming assets totaled $1.2 million, or only 0.13% of total loans, at June 30, 2018. In summary, the allowance for loan losses provided 821% coverage of non-performing assets, and 1.07% of total loans, at June 30, 2018, compared to 337% coverage of non-performing assets, and 1.15% of total loans, at December 31, 2017.

…NON-INTEREST INCOME… Non-interest income for the second quarter of 2018 totaled $3.7 million and decreased $74,000, or 2.0%, from the second quarter 2017 performance. Factors contributing to this lower level of non-interest income for the quarter included:

- a $207,000 increase in Wealth Management fees was primarily due to the Company benefitting from increased market values for assets under management in 2018 and stronger sales of insurance related products by its financial services professionals. Wealth management continues to be an important strategic focus as it contributes to non-interest revenue comprising over 29% of the Company's total revenue;

- a $177,000 decrease in revenue from bank owned life insurance (BOLI) after the Company received a death claim in 2017 and there was no such claim this year;

- a combined $78,000 decrease in net gains on loans sales into the secondary market and mortgage related fees due to lower production and reduced refinance activity of residential mortgage loans;

- a $34,000 increase in other income primarily due to the collection of higher interchange fees; and

- a $32,000 reduction in the net realized gain/loss on investment securities as the market value of sold securities decreased since last year due to the higher interest rate environment.

…NON-INTEREST EXPENSE… Non-interest expense for the second quarter of 2018 totaled $10.3 million and decreased by $7,000, or only 0.1%, from the prior year's second quarter. Factors contributing to the lower non-interest expense in the quarter included:

- a $301,000, or 5.1%, increase in salaries & benefits expense due to higher salaries and incentive compensation due to 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;

- a $163,000, or 11.5%, decrease in professional fees due to reduced legal costs and lower expense for outsourced professional services;

- a combined $84,000 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; and

- a $64,000, or 3.6%, decrease in other expenses due to reduced telephone costs and Pennsylvania shares tax expense.

…INCOME TAX EXPENSE… The Company recorded an income tax expense of $435,000, or an effective tax rate of 20.0%, in the second quarter of 2018. This compares to an income tax expense of $623,000, or an effective tax rate of 31.0%, for the second quarter of 2017. The lower effective tax rate and income tax expense in the first quarter of 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.

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SIX MONTHS ENDED JUNE 30, 2018 VS. SIX MONTHS ENDED JUNE 30, 2017

…PERFORMANCE OVERVIEW… The following table summarizes some of the Company's key performance indicators (in thousands, except per share and ratios).

	Six months ended June 30, 2018	Six months ended June 30, 2017
Net income	$ 3,511	$ 2,737
Diluted earnings per share	0.19	0.15
Return on average assets (annualized)	0.61%	0.47%
Return on average equity (annualized)	7.42%	5.77%

For the six-month time period ended June 30, 2018, the Company reported second quarter 2018 net income of $3,511,000, or $0.19 per diluted common share. This earnings performance was a $774,000, or 28.3%, improvement from the six-month period of 2017 where net income totaled $2,737,000, or $0.15 per diluted common share. The improved earnings in the first six months of 2018 resulted from a combination of lower income tax expense, outstanding asset quality and effective capital management.

…NET INTEREST INCOME AND MARGIN… The following table compares the Company's net interest income performance for the first six months of 2018 to the first six months of 2017 (in thousands, except percentages):

	Six months ended June 30, 2018	Six months ended June 30, 2017	$Change	% Change
Interest income	$ 22,820	$ 21,799	$ 1,021	4.7%
Interest expense	5,214	4,179	1,035	24.8
Net interest income	$ 17,606	$ 17,620	$ (14)	(0.1)
Net interest margin	3.28%	3.27%	0.01	N/M

N/M — not meaningful

The Company's net interest income in the first six months of 2018 decreased by $14,000, or 0.1%, when compared to the first six months of 2017. The Company's net interest margin of 3.28% for the first half of 2018 improved by 1 basis point from the prior year's first six-month time period. The decrease in net interest income is a result of a lower level of total earning assets. Total average earning assets decreased in the first half of 2018 by $4.4 million, or 0.4%. The decrease in earning assets occurred in the loan portfolio as loan pay-offs exceeded new loan production during 2018. This more than offset continued growth in investment securities as management took advantage of the higher interest rate environment in 2018 to purchase additional securities and increase the size of the investment securities portfolio. Specifically, total investment securities averaged $180 million in the first six months of 2018 which was $9.3 million, or 5.4%, higher than the $171 million average for the first six months of 2017. Total loans averaged $882 million in the first half of 2018 which was $13.0 million, or 1.4%, lower than the 2017 first six-month average. The growth in the investment securities portfolio is the result of additional purchases of federal agency mortgage backed securities. Also, management continues its portfolio diversification strategy through purchases of high quality corporate and taxable municipal securities. As a result, interest income on investments increased between the first six months of 2018 and the first six months of 2017 by $412,000, or 16.7%. The combination of a higher level of early loan payoffs and a slowdown in loan production, particularly earlier this year, resulted in the decrease in the average balance of the loan portfolio. However, commercial loan production increased during the latter part of the second quarter of 2018 resulting in the total loans outstanding being comparable between years on an end of period basis. This second quarter growth occurred primarily in commercial real estate loans and commercial/industrial loans which together comprise approximately 72% of the Company's total loan portfolio. Even though total average loans have decreased since last

year, loan interest income increased by $609,000, or 3.1%, between the first half of 2018 and the first half of 2017. The higher loan interest income reflects new loans originating at higher yields as

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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. Overall, total interest income increased by $1.0 million, or 4.7%, in the first half of 2018, as compared to the same period in 2017.

Total interest expense for the first six months of 2018 increased by $1.0 million, or 24.8%, due to higher levels of both deposit and borrowings interest expense. Specifically, deposit interest expense increased by $814,000, or 27.7%, between time periods and reflects the upward repricing of certain indexed money market accounts after the Federal Reserve interest rate increases. Additionally, there has been customer movement of some funds out of lower yielding money market accounts into higher yielding certificates of deposit due to the higher national interest rate environment in 2018. 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, total deposits averaged $958 million in the first six months of 2018 which was $17.3 million, or 1.8%, lower than the $975 million average for 2017. Overall, the Company's loan to deposit ratio averaged 92.1% in the first half of 2018 which indicates that the Company has ample capacity to grow its loan portfolio given the loyalty of its core deposit base. The Company experienced a $221,000, or 17.8%, increase in the interest cost for borrowings in the first six months 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 borrowed funds. In the first half of 2018, total average FHLB borrowed funds was $73 million, an increase of $11.2 million, or 18.1%, from the same period during 2017, which was due to the decrease in total average deposits.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the six month periods ended June 30, 2018 and 2017. For a detailed discussion of the components and assumptions included in the table, see the paragraph before the quarterly table on page 35.

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Six months ended June 30 (In thousands, except percentages)

	2018			2017		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Interest earning assets:						
Loans and loans held for sale, net of unearned income	$ 882,080	$ 19,954	4.51%	$ 895,032	$ 19,354	4.31%
Interest bearing deposits	1,025	9	1.64	1,030	5	0.91
Short-term investment in money market funds	6,889	90	2.60	7,613	51	1.32
Investment securities – AFS	140,693	2,130	3.03	134,655	1,846	2.74
Investment securities – HTM	39,184	648	3.31	35,930	563	3.13
Total investment securities	179,877	2,778	3.09	170,585	2,409	2.82
Total interest earning assets/interest income	1,069,871	22,831	4.27	1,074,260	21,819	4.06
Non-interest earning assets:						
Cash and due from banks	21,858			22,280		
Premises and equipment	12,484			11,909		
Other assets	62,390			67,710		
Allowance for loan losses	(10,143)			(10,167)		
TOTAL ASSETS	$ 1,156,460			$ 1,165,992		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	$ 131,202	$ 503	0.77%	$ 129,138	$ 270	0.42%
Savings	98,286	81	0.17	97,686	81	0.17
Money markets	251,325	1,023	0.82	276,464	667	0.49
Time deposits	294,510	2,147	1.47	289,869	1,922	1.34
Total interest bearing deposits	775,323	3,754	0.98	793,157	2,940	0.75
Short-term borrowings	27,996	262	1.86	16,495	86	1.04
Advances from Federal Home Loan Bank	45,418	378	1.68	45,679	333	1.47
Guaranteed junior subordinated deferrable interest debentures	13,085	560	8.57	13,085	560	8.57
Subordinated debt	7,650	260	6.80	7,650	260	6.80
Total interest bearing liabilities/interest expense	869,472	5,214	1.21	876,066	4,179	0.96
Non-interest bearing liabilities:						
Demand deposits	182,769			182,209		
Other liabilities	8,821			12,130		
Shareholders’ equity	95,398			95,587		

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,156,460			$ 1,165,992		
Interest rate spread			3.06			3.10
Net interest income/Net interest margin		17,617	3.28%		17,640	3.27%
Tax-equivalent adjustment		(11)			(20)	
Net Interest Income		$ 17,606			$ 17,620	

…PROVISION FOR LOAN LOSSES… The Company recorded a $100,000 provision for loan losses in the first six months of 2018 compared to a $550,000 provision for loan losses in the first six months of 2017, or a decrease of $450,000 between periods. The lower 2018 loan loss provision reflects our overall strong asset quality, the successful workout of several criticized loans, and reduced loan portfolio balances. For the first six months of 2018, the Company experienced net loan charge-offs of $793,000, or 0.18%, of total loans, compared to net loan charge-offs of $91,000, or 0.02%, in 2017. The higher 2018 net loan charge-offs reflect the final work-out of several non-performing loans on which reserves had previously been established. The Company presently expects that net charge-offs will decline in the second half of 2018. Overall, the Company continued to maintain strong asset quality as its nonperforming assets totaled $1.2 million, or only 0.13% of total loans, at June 30, 2018.

…NON-INTEREST INCOME… Non-interest income for the first six months of 2018 totaled $7.3 million and nearly matched the 2017 level, decreasing slightly by $1,000. Factors contributing to this slightly lower level of non-interest income for the first six months included:

- a $323,000 increase in Wealth Management fees was primarily due to the Company benefitting from increased market values for assets under management in 2018 and stronger sales of insurance related products by its financial services professionals;

- a $218,000 increase in other income primarily due a $156,000 gain realized on the sale of certain equity securities that the Company owned from a previous acquisition and higher interchange fees;

- a $207,000 reduction in the net realized gain/loss on investment securities as the market value of sold securities decreased since last year due to the higher interest rate environment. Management viewed the gain recognized on the sale of equity securities, mentioned above in the second bullet, as an opportunity to rid the investment securities portfolio of certain investments having a low yield and a small balance;

- a $186,000 decrease in revenue from bank owned life insurance (BOLI) after the Company received a death claim in 2017 and there was no such claim this year; and

- a combined $130,000 decrease in net gains on loans sales into the secondary market and mortgage related fees due to lower production and reduced refinance activity of residential mortgage loans;

…NON-INTEREST EXPENSE… Non-interest expense for the first half of 2018 totaled $20.4 million and increased by only $28,000, or 0.1%, from the prior year. Factors contributing to the slightly higher non-interest expense in the quarter included:

- a $446,000, or 3.8%, 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;

- a $179,000, or 6.8%, decrease in professional fees due to reduced legal costs and lower expense for outsourced professional services;

- a combined $116,000 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; and

- a $128,000, or 3.7%, decrease in other expenses due to reduced telephone costs and Pennsylvania shares tax expense.

…INCOME TAX EXPENSE… The Company recorded an income tax expense of $881,000, or an effective tax rate of 20.1%, in the first six months of 2018. This compares to the income tax expense of $1,248,000, or an effective tax rate of 31.3% for the first six months of 2017. The lower effective tax rate and income tax expense in the first quarter of 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.

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…SEGMENT RESULTS… Retail banking's net income contribution was $754,000 in the second quarter of 2018 and $1.5 million for the first six months of 2018 which was up slightly by $6,000 from the second quarter of last year and by $95,000 from the net income contribution for the first six months of 2017. This increase reflects a lower level of non-interest expense 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 a lower loan loss provision in 2018 and the lower corporate income tax rate that resulted from the enactment of the "Tax Cuts and Jobs Act" which caused a reduction in income tax expense. Slightly offsetting these favorable items was a decrease in net interest income due to a lower level of residential real estate loan originations in 2018 combined with the immediate upward repricing of money market deposit accounts because of the increases to the Federal Funds Rate. Also decreasing in both time periods was a lower level of non-interest income due to reduced residential mortgage loan sale gain income, mortgage related fees, BOLI revenue and fee income from deposit service charges.

The commercial banking segment reported net income of $1.6 million in the second quarter and $3.2 million in the first half of 2018 which was higher by $229,000 and $317,000 when compared to the same 2017 periods. The higher level of income for both time periods of 2018 was due to the lower provision for loan losses and reduced income tax expense. The lower loan loss provision in 2018 reflects our overall strong asset quality, the successful workout of several criticized loans, and reduced loan portfolio balances. Also, total employee costs are lower due to reduced pension expense and three fewer commercial relationship managers in 2018. Partially offsetting these favorable items was lower net interest income due to a reduced volume of commercial and commercial real estate loans this year as loan originations occurred at a slower pace so far this year and early loan prepayment activity was higher in the first quarter of 2018. Also, miscellaneous expenses are higher for the first six-month time period in 2018 but lower on a quarterly basis when compared to 2017.

The wealth management segment reported net income of $432,000 in the second quarter and $940,000 in the first half of 2018 which was $143,000 and $284,000 higher than the same periods for 2017. The increase is due to wealth management fees increasing as this segment has benefitted from increased market values for assets under management. Wealth management continues to be an important strategic focus of the Company. Also contributing to the higher level of net income from this segment was a lower level of professional fees. 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.

The investment/parent segment reported a net loss of $1.1 million in the second quarter of 2018 and a $2.1 million net loss in the first six months of this year, which is higher for the quarter by $23,000 and lower for the six months by $78,000. The decreased loss in 2018 for the year to date time period is reflective of the higher level of investment securities on the Company's balance sheet as purchase opportunities continue to be favorable due to the higher interest rate environment in the economy. The increased loss between the second quarter of 2018 and last year's second quarter was the result of higher non-interest expense due to higher legal fees.

…BALANCE SHEET… The Company's total consolidated assets were $1.18 billion at June 30, 2018, which increased by $12.9 million, or 1.1%, from the December 31, 2017 asset level. The increase was driven by an increased level of total earning assets. Specifically, total loans increased by $2.4 million, or 0.3%, during the period while investment securities grew by $6.9 million, or 4.1%.

Total deposits decreased by $19.8 million, or 2.1% in the first six months of 2018. As of June 30, 2018, the 25 largest depositors represented 20.0% of total deposits, which is a slight decrease from the second quarter 2017 when it was 20.3%. Total FHLB borrowings have increased by $31.6 million since year-end 2017. The increase in borrowed funds occurred in short term borrowings as a result of the decrease in total deposits. Total FHLB term advances decreased by $2.3 million and totaled $44 million due to timing differences related to the replacement of matured advances. The Company has utilized these term advances to help manage interest rate risk and favorably position our balance sheet for a rising rate environment. The Company's total shareholders' equity increased by $1.8 million over the first six months of 2018 due to the retention of earnings more than offsetting our common dividend payment to shareholders and the impact of our common stock buyback program, which is addressed on page 45.

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The Company continues to be considered well capitalized for regulatory purposes with a total capital ratio of 13.01%, and a common equity tier 1 capital ratio of 9.99% at June 30, 2018. (See the discussion of the Basel III capital requirements under the "Capital Resources" section.) As of June 30, 2018, the Company's book value per common share was $5.37 and its tangible book value per common share was $4.71. Both of these ratios improved by $0.12 per common share when compared to December 31, 2017. Tangible common equity to tangible assets ratio was 7.27% at June 30, 2018 and improved by seven basis points when compared to December 31, 2017.
The tangible common equity ratio 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 June 30, 2018 and December 31, 2017 (in thousands, except ratio):

	June 30, 2018	December 31, 2017
Total shareholders' equity	$ 96,883	$ 95,102
Less: Goodwill	11,944	11,944
Tangible equity	84,939	83,158
Total assets	1,180,510	1,167,655
Less: Goodwill	11,944	11,944
Tangible assets	1,168,566	1,155,711
Tangible common equity ratio	7.27%	7.20%

…LOAN QUALITY… The following table sets forth information concerning the Company's loan delinquency, non-performing assets, and classified assets (in thousands, except percentages):

	June 30, 2018	December 31, 2017	June 30, 2017
Total accruing loan delinquency (past due 30 to 89 days)	$ 3,137	$ 8,178	$ 14,135
Total non-accrual loans	1,000	3,016	1,684
Total non-performing assets including TDR*	1,160	3,034	2,362
Accruing loan delinquency, as a percentage of total loans, net of unearned income	0.35%	0.92%	1.58%
Non-accrual loans, as a percentage of total loans, net of unearned income	0.11	0.34	0.19
Non-performing assets, as a percentage of total loans, net of unearned income, and other real estate owned	0.13	0.34	0.26
Non-performing assets as a percentage of total assets	0.10	0.26	0.20
As a percent of average loans, net of unearned income:			
Annualized net charge-offs	0.18	0.06	0.02
Annualized provision for loan losses	0.02	0.09	0.12
Total classified loans (loans rated substandard or doubtful)	$ 4,715	$ 5,433	$ 9,897

*
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 a troubled debt restructuring and (iv) other real estate owned.

Overall, the Company continued to maintain strong asset quality in the first half of 2018 as evidenced by low levels of non-accrual loans, non-performing assets, classified loans, and loan delinquency levels that continue to be below 1% of total loans. We also continue to closely monitor the loan portfolio given the number of relatively large-sized

commercial and commercial real estate loans within the portfolio. As of June 30, 2018, the 25 largest credits represented 26.4% of total loans outstanding, which represents a slight decrease from the second quarter 2017 when it was 26.7%.

…ALLOWANCE FOR LOAN LOSSES… The following table sets forth the allowance for loan losses and certain ratios for the periods ended (in thousands, except percentages):

	June 30, 2018	December 31, 2017	June 30, 2017
Allowance for loan losses	$ 9,521	$ 10,214	$ 10,391
Allowance for loan losses as a percentage of each of the following:			
total loans, net of unearned income	1.07%	1.15%	1.16%
total accruing delinquent loans (past due 30 to 89 days)	303.51	124.90	73.51
total non-accrual loans	951.15	338.66	617.04
total non-performing assets	820.78	336.65	439.92

The Company recorded a $100,000 provision for loan losses in the first six months of 2018 compared to a $550,000 provision for loan losses in the first six months of 2017 or a decrease of $450,000 million between periods. The loan loss provision in 2018 reflects our overall strong asset quality, the successful workout of several criticized loans, and reduced loan portfolio balances.

…LIQUIDITY…The Company’s liquidity position has been strong during the last several years. Our core retail deposit base has been more than adequate to fund the Company’s operations. Payments and prepayments from the loan portfolios, as well as, cash flow from maturities, prepayments and amortization of securities were also used to help fund new loan originations. We strive to operate our loan to deposit ratio in a range of 80% to 100%. For the first six months of 2018, the Company’s loan to deposit ratio has averaged 92.07%. We are optimistic that we can increase the loan to deposit ratio in 2018 given commercial loan pipelines, continued growth from our loan production offices and our focus on small business lending.

Liquidity can be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents increased by $833,000 from December 31, 2017 to June 30, 2018, due to $10.7 million of cash provided in financing activities and $4.0 million of cash provided by operating activities more than offsetting $13.9 million of cash used by investing activities. Within financing activities, short term borrowed funds increased by $33.8 million while total deposit balances decreased by $19.8 million. Within investing activities, cash advanced for new loan fundings and purchases (excluding residential mortgages sold in the secondary market) totaled $86.4 million and was $2.8 million higher than the $83.6 million of cash received from loan principal payments and participations sold. Also, cash utilized for new investment security purchases totaled $24.9 million which more than exceeded cash provided from investment security maturities and sales of $15.3 million. Within operating activities, sales of residential mortgage loans of $14.5 million nearly offset new residential mortgage loan originations of $14.8 million. At June 30, 2018, the Company had immediately available $314 million of overnight borrowing capacity at the FHLB and $35 million of unsecured federal funds lines with correspondent banks.

The holding company had $9.2 million of cash, short-term investments, and investment securities at June 30, 2018. Additionally, dividend payments from our subsidiaries also provide ongoing cash to the holding company. At June 30, 2018, our subsidiary Bank had $4.9 million of cash available for immediate dividends to the holding company under applicable regulatory formulas. Management follows a policy that limits dividend payments from the Trust Company to 75% of annual net income. Overall, we believe that the holding company has strong liquidity to meet its trust preferred debt service requirements, its subordinated debt interest payments, its increased common stock dividend, and support the common stock repurchase program.

…CAPITAL RESOURCES… The Bank meaningfully exceeds all regulatory capital ratios for each of the periods presented and is considered well capitalized. The Company’s common equity tier 1 ratio was 9.99%, the tier 1 capital ratio was 11.20%, and the total capital ratio was 13.01% at June 30, 2018. The Company’s tier 1 leverage was 9.61% at June 30, 2018. We anticipate that we will maintain our strong capital ratios throughout the remainder of 2018. Capital generated from earnings will be utilized to pay the common stock cash dividend and will also support controlled balance sheet growth. There is a particular emphasis on ensuring that the subsidiary bank has appropriate levels of capital to support its non-owner occupied commercial real estate loan concentration which stood at 345% of regulatory capital at June 30, 2018.

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On May 17, 2018, the Company's Board of Directors approved 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. At June 30, 2018, the Company had approximately 18 million common shares outstanding.

In the first quarter of 2018, the Company completed a 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 million of capital to its shareholders through this program.

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 this 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.

…REGULATORY UPDATE… The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Act"), which was designed to ease certain restrictions imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, was enacted into law on May 24, 2018. Most of the changes made by the Act can be grouped into five general areas: mortgage lending; certain regulatory relief for "community" banks; enhanced consumer protections in specific areas, including subjecting credit reporting agencies to additional requirements; certain regulatory relief for large financial institutions, including increasing the threshold at which institutions are classified a systemically important financial institutions (from $50 billion to $250 billion) and therefore subject to stricter oversight, and revising the rules for larger institution stress testing; and certain changes to federal securities regulations designed to promote capital formation. Some of the key provisions of the Act as it relates to community banks and bank holding companies include, but are not limited to: (i) designating mortgages held in portfolio as "qualified mortgages" for banks with less than $10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than $10 billion in assets from Volcker Rule requirements relating to proprietary trading; (iii) simplifying capital calculations for banks with less than $10 billion in assets by requiring federal banking agencies to establish a community bank leverage ratio of tangible equity to average consolidate assets not less than 8% or more than 10% and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from $1 billion to $5 billion in assets; and (vi) clarifying definitions pertaining to high volatility commercial real estate loans (HVCRE), which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings. 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.

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…INTEREST RATE SENSITIVITY… 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
200bp increase	1.2%	15.6%
100bp increase	0.9	9.1
100bp decrease	(1.3)	(12.5)

The Company believes that its overall interest rate risk position is well controlled. The variability of net interest income is positive in the upward rate shocks due to the Company's short duration investment securities portfolio, the scheduled repricing of loans tied to LIBOR or prime, and the extension of a portion of borrowed funds. Also, the Company expects that it will not have to reprice its core deposit accounts up as quickly as 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 approximately 2.00%. 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.

…OFF BALANCE SHEET ARRANGEMENTS… The Company incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The Company had various outstanding commitments to extend credit approximating $192.5 million and standby letters of credit of $10.1 million as of June 30, 2018. The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending.

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

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ACCOUNT — Allowance for Loan Losses
BALANCE SHEET REFERENCE — Allowance for loan losses
INCOME STATEMENT REFERENCE — Provision for loan losses
DESCRIPTION
The allowance for loan losses is calculated with the objective of maintaining reserve levels believed by management to be sufficient to absorb estimated probable credit losses. Management’s determination of the adequacy of the allowance is based on periodic evaluations of the credit portfolio and other relevant factors. However, this quarterly evaluation is inherently subjective as it requires material estimates, including, among others, likelihood of customer default, loss given default, exposure at default, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on consumer loans and residential mortgages, and general amounts for historical loss experience. This process also considers economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios. All of these factors may be susceptible to significant change. Also, the allocation of the allowance for credit losses to specific loan pools is based on historical loss trends and management’s judgment concerning those trends.
Commercial and commercial real estate loans are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan loss. Approximately $7.3 million, or 76%, of the total allowance for loan losses at June 30, 2018 has been allocated to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, economic trends, delinquencies, levels of non-performing and TDR loans, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions. To the extent actual outcomes differ from management estimates, additional provision for loan losses may be required that would adversely impact earnings in future periods.
ACCOUNT — Goodwill
BALANCE SHEET REFERENCE — Goodwill
INCOME STATEMENT REFERENCE — Goodwill impairment
DESCRIPTION
The Company considers our accounting policies related to goodwill to be critical because the assumptions or judgment used in determining the fair value of assets and liabilities acquired in past acquisitions are subjective and complex. As a result, changes in these assumptions or judgment could have a significant impact on our financial condition or results of operations.
The fair value of acquired assets and liabilities, including the resulting goodwill, was based either on quoted market prices or provided by other third party sources, when available. When third party information was not available, estimates were made in good faith by management primarily through the use of internal cash flow modeling techniques. The assumptions that were used in the cash flow modeling were subjective and are susceptible to significant changes. The Company routinely utilizes the services of an independent third party that is regarded within the banking industry as an expert in valuing core deposits to monitor the ongoing value and changes in the Company’s core deposit base. These core deposit valuation updates are based upon specific data provided from statistical analysis of the Company’s own deposit behavior to estimate the duration of these non-maturity deposits combined with market interest rates and other economic factors.
Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. The Company’s goodwill relates to value inherent in the banking and wealth management businesses, and the value is dependent upon the Company’s ability to provide quality, cost-effective services in the face of free competition from other market participants on a regional basis. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of the Company’s services. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted and the loyalty of the Company’s deposit and customer base over a longer time frame. The quality and value of a Company’s assets is also an important factor to consider when performing goodwill impairment testing. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective value added services over sustained periods can lead to impairment of goodwill.

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Goodwill which has an indefinite useful life is tested for impairment at least annually and written down and charged to results of operations only in periods in which the recorded value is more than the estimated fair value.
ACCOUNT — Income Taxes
BALANCE SHEET REFERENCE — Net deferred tax asset
INCOME STATEMENT REFERENCE — Provision for income tax expense
DESCRIPTION
The provision for income taxes is the sum of income taxes both currently payable and deferred. The changes in deferred tax assets and liabilities are determined based upon the changes in differences between the basis of assets and liabilities for financial reporting purposes and the basis of assets and liabilities as measured by the enacted tax rates that management estimates will be in effect when the differences reverse. This income tax review is completed on a quarterly basis.
In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related timing of the expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of June 30, 2018, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered and that no valuation allowances were needed.
In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.
ACCOUNT — Investment Securities
BALANCE SHEET REFERENCE — Investment securities
INCOME STATEMENT REFERENCE — Net realized gains (losses) on investment securities
DESCRIPTION
Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operations. At June 30, 2018, the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by government agencies or government sponsored agencies and certain high quality corporate and taxable municipal securities. The Company believes the unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

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.....FORWARD LOOKING STATEMENT .....

THE STRATEGIC FOCUS:

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

- Shareholders — We are committed to increasing earnings per share growth; identifying and managing revenue growth and expense reduction; and managing risk. Our goal is to increase value for AmeriServ shareholders by growing earnings per share by 10 percent year-over-year and narrowing the financial performance gap between AmeriServ and its peer banks. We are committed to return up to 75 percent of earnings to shareholders through a combination of dividends and share repurchases subject to maintaining sufficient capital to support balance sheet growth. Our employee base will be educated as to the meaning/importance of earnings per share as a performance measure. We will develop a value added combination for increasing revenue and reducing expenses that is rooted in developing and offering high-quality financial products and services; an existing branch network; electronic banking capabilities with 24/7 convenience; and providing truly exceptional customer service. We will explore branch consolidation opportunities and further leverage union affiliated revenue streams, prudently manage the Company's risk profile to improve asset yields and increase profitability and continue to identify and implement technological opportunities and advancements to drive efficiency for the holding company and its affiliates.

- Customers — The Company is committed to providing exceptional customer service, identifying opportunities to enhance the Banking for Life philosophy by providing products and services to meet the financial needs in every step through a customer's life cycle, and further defining the role technology plays in anticipating and satisfying customer needs. We will provide leading banking systems and solutions to improve and enhance customers' Banking for Life experience. We will provide customers with a comprehensive offering of financial solutions including retail and business banking, home mortgages and wealth management at one location. We are committed to redesign select branches to be more inviting and technologically savvy to meet the needs of the next generation of AmeriServ customers without abandoning the needs of our existing demographic.

- Staff — We are committed to developing high-performing employees, establishing and maintaining a culture of trust and effectively and efficiently managing staff attrition. We will employ a work force succession plan to manage anticipated staff attrition while identifying and grooming high performing staff members to assume positions with greater responsibility within the organization. We will employ technological systems and solutions to provide staff with the tools they need to perform more efficiently and effectively.

- Communities — We will continue to promote and encourage employee community involvement and leadership while fostering a positive corporate image. This will be accomplished by demonstrating our commitment to the communities it serves through assistance in providing affordable housing programs for low-to-moderate-income families; donations to qualified charities; and the time and talent contributions of AmeriServ staff to a wide-range of charitable and civic organizations.

This Form 10-Q contains various forward-looking statements and includes assumptions concerning the Company's beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, operations, future results, and

prospects, including statements that include the words “may,” “could,” “should,” “would,” “believe,” “expect,” “anticipate,” “e
“intend,” “project,” “plan” or similar expressions.

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These forward-looking statements are based upon current expectations, are subject to risk and uncertainties and are applicable only as of the dates of such statements. Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Form 10-Q, even if subsequently made available on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Form 10-Q. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary statement identifying important factors (some of which are beyond the Company's control) which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

Such factors include the following: (i) the effect of changing regional and national economic conditions; (ii) the effects of trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve; (iii) significant changes in interest rates and prepayment speeds; (iv) inflation, stock and bond market, and monetary fluctuations; (v) credit risks of commercial, real estate, consumer, and other lending activities; (vi) changes in federal and state banking and financial services laws and regulations; (vii) the presence in the Company's market area of competitors with greater financial resources than the Company; (viii) the timely development of competitive new products and services by the Company and the acceptance of those products and services by customers and regulators (when required); (ix) the willingness of customers to substitute competitors' products and services for those of the Company and vice versa; (x) changes in consumer spending and savings habits; (xi) unanticipated regulatory or judicial proceedings; and (xii) other external developments which could materially impact the Company's operational and financial performance.

The foregoing list of important factors is not exclusive, and neither such list nor any forward-looking statement takes into account the impact that any future acquisition may have on the Company and on any such forward-looking statement.

Item 3…QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK…The Company manages market risk, which for the Company is primarily interest rate risk, through its asset liability management process and committee, see further discussion in Interest Rate Sensitivity section of the M.D.&A.

Item 4…CONTROLS AND PROCEDURES…(a) Evaluation of Disclosure Controls and Procedures. The Company's management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and the operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2018, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer along with the Chief Financial Officer concluded that the Company's disclosure controls and procedures as of June 30, 2018, are effective.

(b) Changes in Internal Controls. There have been no changes in AmeriServ Financial Inc.'s internal controls over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II Other Information

Item 1. Legal Proceedings

There are no material proceedings to which the Company or any of our subsidiaries are a party or by which, to the Company's knowledge, we, or any of our subsidiaries, are threatened. All legal proceedings presently pending or threatened against the Company or our subsidiaries involve routine litigation incidental to our business or that of the subsidiary involved and are not material in respect to the amount in controversy.

Item 1A. Risk Factors

Not Applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In the first quarter of 2018, the Company was able to repurchase 105,663 shares at an average price of $4.21. All shares were repurchased under Board of Directors authorization dated January 24, 2017. All shares authorized under this plan have 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. The Company completed no common stock repurchases during the second quarter of 2018.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

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Item 6. Exhibits

3.1	Amended and Restated Articles of Incorporation as amended through August 11, 2011 (Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-8 (File No. 333-176869) filed on September 16, 2011).
3.2	Bylaws, as amended and restated on June 21, 2018 (Incorporated by reference to Exhibit 3.2 to the Current report on Form 8-K filed on June 25, 2018).
15.1	Report of S.R. Snodgrass, P.C. regarding unaudited interim financial statement information.
15.2	Awareness Letter of S.R. Snodgrass, P.C.
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101	The following information from AMERISERV FINANCIAL, INC.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (eTensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) Consolidated Statements of Comprehensive Income (unaudited), (iv) Consolidated Statements of Cash Flows (unaudited), and (iv) Notes to the Unaudited Consolidated Financial Statements.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	AmeriServ Financial, Inc. Registrant
Date: August 10, 2018	/s/ Jeffrey A. Stopko Jeffrey A. Stopko President and Chief Executive Officer
Date: August 10, 2018	/s/ Michael D. Lynch Michael D. Lynch Senior Vice President and Chief Financial Officer

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