

AMERISERV FINANCIAL INC /PA/

Form 10-K

March 08, 2016

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

**FORM 10-K**

(MARK ONE)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

**OR**

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

**COMMISSION FILE NUMBER 0-11204**

**AMERISERV FINANCIAL, INC.**

(Exact name of registrant as specified in its charter)

PENNSYLVANIA  
(State or other jurisdiction of  
incorporation or organization)

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

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

**15907-0430**

(Zip Code)

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

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

Title Of Each Class

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

Name Of Each Exchange On Which Registered

The NASDAQ Stock Market LLC

The NASDAQ Stock Market LLC

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐ 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 "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐  
Yes ☐ No ☒

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the business day of the registrant's most recently completed second fiscal quarter. The aggregate market value was \$62,809,831 as of June 30, 2015.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. There were 18,870,811 shares outstanding as of January 29, 2016.

## **DOCUMENTS INCORPORATED BY REFERENCE.**

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

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**PART I**

**ITEM 1. BUSINESS**

**GENERAL**

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

The Company's principal activities consist of owning and operating its three wholly owned subsidiary entities. At December 31, 2015, the Company had, on a consolidated basis, total assets, deposits, and shareholders' equity of \$1.149 billion, \$903 million, and \$119 million, respectively. The Company and its subsidiaries derive substantially all of their income from banking and bank-related services. The Company functions primarily as a coordinating and servicing unit for its subsidiary entities in general management, accounting and taxes, loan review, auditing, investment accounting, marketing and risk management.

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

**AMERISERV FINANCIAL BANKING SUBSIDIARY**

**AMERISERV FINANCIAL BANK**

The Bank is a state bank chartered under the Pennsylvania Banking Code of 1965, as amended (the Banking Code). Through 17 locations in Allegheny, Cambria, Centre, Somerset, and Westmoreland counties, Pennsylvania, the Bank conducts a general banking business. It is a full-service bank offering (i) retail banking services, such as demand, savings and time deposits, checking accounts, money market accounts, secured and unsecured consumer loans, mortgage loans, safe deposit boxes, holiday club accounts, money orders, and traveler's checks; and (ii) lending, depository and related financial services to commercial, industrial, financial, and governmental customers, such as commercial real estate mortgage loans (CRE), short and medium-term loans, revolving credit arrangements, lines of credit, inventory and accounts receivable financing, real estate-construction loans, business savings accounts, certificates of deposit, wire transfers, night depository, and lock box services. The Bank also operates 19 automated bank teller machines (ATMs) through its 24-hour banking network that is linked with NYCE, a regional ATM network, and CIRRUS, a national ATM network. West Chester Capital Advisors (WCCA), a SEC registered investment advisor, is also a subsidiary of the Bank. The Company also operates loan production offices (LPOs) in Monroeville and Altoona in Pennsylvania, Hagerstown in Maryland and Harrisonburg in Virginia.

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

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

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The Bank is subject to supervision and regular examination by the Federal Reserve Bank of Philadelphia and the PDB. Various federal and state laws and regulations govern many aspects of its banking operations. The following is a summary of key data (dollars in thousands) and ratios of the Bank at December 31, 2015:

Headquarters	Johnstown, PA
Total Assets	<b>\$1,108,994</b>
Total Investment Securities	<b>129,902</b>
Total Loans and Loans Held for Sale (net of unearned income)	<b>883,987</b>
Total Deposits	<b>903,494</b>
Total Net Income	<b>5,938</b>
Asset Leverage Ratio	<b>8.97</b> %
Return on Average Assets	<b>0.55</b>
Return on Average Equity	<b>5.80</b>
Total Full-time Equivalent Employees	<b>247</b>

### **RISK MANAGEMENT OVERVIEW:**

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

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

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

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

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

#### **Commercial Loans**

This category includes credit extensions to commercial and industrial borrowers. Business assets, including accounts receivable, inventory and/or equipment, typically secure these credits. In appropriate instances, extensions of credit in this category are subject to collateral advance formulas. Balance sheet strength and profitability are considered when



analyzing these credits, with special attention given to historical, current and prospective sources of cash flow, and the ability of the customer to sustain cash flow at acceptable levels. The Bank's policy permits flexibility in determining acceptable debt service coverage ratios, with a minimum level of 1.1 to 1x desired. Personal guarantees are frequently required; however, as the financial strength of the borrower increases, the Bank's ability to obtain personal guarantees decreases. In addition to economic risk, this category is impacted by the strength of the borrower's management, industry risk and portfolio concentration risk each of which are also monitored and considered during the underwriting process.

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### **Commercial Loans Secured by Real Estate**

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

### **Residential Real Estate Mortgages**

This category includes mortgages that are secured by residential property. Underwriting of loans within this category is pursuant to Freddie Mac/Fannie Mae underwriting guidelines, with the exception of Community Reinvestment Act (CRA) loans, which have more liberal standards. The major risk in this category is that a significant downward economic trend would increase unemployment and cause payment default. The Bank does not engage and has never engaged, in subprime residential mortgage lending.

### **Consumer Loans**

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

## **INVESTMENTS**

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

The investment portfolio is primarily made up of AAA rated agency mortgage-backed securities and short maturity agency securities. Beginning in 2012, the Company began to add high quality corporate securities and select taxable municipal securities to the portfolio. Management strives to maintain a relatively short duration in the portfolio. All holdings must meet standards documented in its investment policy.

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

Investment securities available for sale at:

	AT DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS)		
U.S. Agency	<b>\$ 2,900</b>	\$ 5,931	\$ 6,926

Corporate bonds	<b>18,541</b>	15,497	11,992
U.S. Agency mortgage-backed securities	<b>96,801</b>	102,888	121,480
Total cost basis of investment securities available for sale	<b>\$ 118,242</b>	\$ 124,316	\$ 140,398
Total fair value of investment securities available for sale	<b>\$ 119,467</b>	\$ 127,110	\$ 141,978

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Investment securities held to maturity at:

	AT DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS)		
Taxable municipal	\$ 5,592	\$ 3,364	\$ 1,521
U.S. Agency mortgage-backed securities	10,827	12,481	12,671
Corporate bonds and other securities	5,000	3,995	3,995
Total cost basis of investment securities held to maturity	\$ 21,419	\$ 19,840	\$ 18,187
Total fair value of investment securities held to maturity	\$ 21,533	\$ 20,213	\$ 17,788

**DEPOSITS AND OTHER SOURCES OF FUNDS****Deposits**

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

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

	AT DECEMBER 31,					
	2015		2014		2013	
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Demand:						
Non-interest bearing	\$ 171,175	%	\$ 155,365	%	\$ 158,169	%
Interest bearing	97,201	0.21	97,641	0.20	75,126	0.18
Savings	94,425	0.17	89,554	0.16	87,819	0.16
Money market	242,298	0.34	228,150	0.33	212,735	0.35
Other time	287,783	1.24	300,915	1.26	312,741	1.33
Total deposits	\$ 892,882	0.66 %	\$ 871,625	0.68 %	\$ 846,590	0.75 %

**Loans**

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,				
	2015	2014	2013	2012	2011
	(IN THOUSANDS)				
Commercial	\$ 181,115	\$ 139,158	\$ 120,120	\$ 102,864	\$ 83,124
Commercial loans secured by real estate <sup>(1)</sup>	422,145	410,851	412,254	383,934	350,224
Real estate-mortgage <sup>(1)</sup>	257,937	258,616	235,689	217,584	212,669
Consumer	20,344	19,009	15,864	17,420	18,172
Total loans	881,541	827,634	783,927	721,802	664,189
Less: Unearned income	557	554	581	637	452

Total loans, net of unearned income	<b>\$880,984</b>	\$ 827,080	\$ 783,346	\$ 721,165	\$ 663,737
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(1) For each of the periods presented beginning with December 31, 2015, real estate-construction loans constituted 3.0%, 3.5%, 3.0%, 2.0% and 1.9% of the Company's total loans, net of unearned income, respectively.

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

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

**Non-performing Assets**

The following table presents information concerning non-performing assets:

	AT DECEMBER 31,				
	2015	2014	2013	2012	2011
	(IN THOUSANDS, EXCEPT PERCENTAGES)				
Non-accrual loans:					
Commercial	<b>\$4,260</b>	\$	\$	\$	\$
Commercial loans secured by real estate	<b>18</b>	778	1,632	4,623	3,870
Real estate-mortgage	<b>1,788</b>	1,417	1,239	1,191	1,205
Total	<b>6,066</b>	2,195	2,871	5,814	5,075
Other real estate owned:					
Commercial loans secured by real estate		384	344	1,101	20
Real estate-mortgage	<b>75</b>	128	673	127	104
Total	<b>75</b>	512	1,017	1,228	124
Total restructured loans not in non-accrual (TDR)	<b>156</b>	210	221	182	
Total non-performing assets including TDR	<b>\$6,297</b>	\$2,917	\$4,109	\$7,224	\$5,199
Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned	<b>0.71 %</b>	0.35 %	0.52 %	1.00 %	0.78 %

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

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

YEAR ENDED DECEMBER 31,  
2015 2014 2013 2012 2011

(IN THOUSANDS)

Interest income due in accordance with original terms	<b>\$94</b>	\$ 136	\$ 178	\$ 231	\$ 376
Interest income recorded					(167 )
Net reduction in interest income	<b>\$94</b>	\$ 136	\$ 178	\$ 231	\$ 209

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### **AMERISERV FINANCIAL NON-BANKING SUBSIDIARIES**

#### **AMERISERV TRUST AND FINANCIAL SERVICES COMPANY**

AmeriServ Trust and Financial Services Company is a trust company organized under Pennsylvania law in October 1992. Its staff of approximately 48 professionals administers assets valued at approximately \$2.0 billion that are not recognized on the Company's balance sheet at December 31, 2015. The Trust Company focuses on wealth management. Wealth management includes personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. This segment also includes financial services which include the sale of mutual funds, annuities, and insurance products. The wealth management business also includes the union collective investment funds, namely the ERECT and BUILD funds which are designed to use union pension dollars in construction projects that utilize union labor. The BUILD fund is in the process of liquidation. At December 31, 2015, the Trust Company had total assets of \$4.9 million and total stockholder's equity of \$4.6 million. In 2015, the Trust Company contributed earnings to the Company as its gross revenue amounted to \$8.5 million and the net income contribution was \$1.3 million. The Trust Company is subject to regulation and supervision by the Federal Reserve Bank of Philadelphia and the PDB.

#### **AMERISERV LIFE**

AmeriServ Life is a captive insurance company organized under the laws of the State of Arizona. AmeriServ Life engages in underwriting as reinsurer of credit life and disability insurance within the Company's market area. Operations of AmeriServ Life are conducted in each office of the Company's banking subsidiary. AmeriServ Life is subject to supervision and regulation by the Arizona Department of Insurance, the Pennsylvania Insurance Department, and the Board of Governors of the Federal Reserve System (the Federal Reserve). At December 31, 2015, AmeriServ Life had total assets of \$389,000.

#### **MONETARY POLICIES**

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

#### **COMPETITION**

Our subsidiaries face strong competition from other commercial banks, savings banks, credit unions, savings and loan associations, and other financial or investment service institutions for business in the communities they serve. Several of these institutions are affiliated with major banking and financial institutions which are substantially larger and have greater financial resources than the Bank and the Trust Company. As the financial services industry continues to consolidate, the scope of potential competition affecting our subsidiaries will also increase. Brokerage houses, consumer finance companies, insurance companies, and pension trusts are important competitors for various types of financial services. In addition, personal and corporate trust investment counseling services are offered by insurance companies, other firms, and individuals.



**MARKET AREA & ECONOMY**

Johnstown, Pennsylvania, where the Company is headquartered, continues to have a cost of living that is lower than the national average. Johnstown is home to The University of Pittsburgh at Johnstown, Pennsylvania Highlands Community College and Cambria-Rowe Business College. The high-tech defense industry is now the main non-health care staple of the Johnstown economy, with the region fulfilling many Federal government contracts, punctuated by one of the premier defense trade shows in the U.S., the annual

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Showcase For Commerce. The city also hosts annual events such as the Flood City Music Festival and the Thunder in the Valley Motorcycle Rally, which draw several thousand visitors. The Johnstown, PA MSA unemployment rate improved from a 6.9% average in 2014 to a 6.5% average in 2015.

Economic conditions are stronger in the State College market and have demonstrated the same improvement experienced in the national economy. The community is a college town, dominated economically and demographically by the presence of the University Park campus of the Pennsylvania State University. Happy Valley is another often-used term to refer to the State College area, including the borough and the townships of College, Harris, Patton, and Ferguson. The unemployment rate for State College MSA improved from a 4.2% average in 2014 to a 3.8% average in 2015 and remains the one of the lowest of all regions in the Commonwealth. A large percentage of the population in State College falls into the 18 to 34 year old age group, while potential customers in the Cambria/Somerset markets tend to be over 50 years of age.

The Company also has loan production offices in Monroeville in Allegheny county, Altoona in Blair county, Pennsylvania, Hagerstown in Washington county, Maryland and Harrisonburg in Rockingham county, Virginia. Monroeville in Allegheny county, Pennsylvania is located 15 miles east of the city of Pittsburgh. While the city is historically known for its steel industry, today its economy is largely based on healthcare, education, technology and financial services. The city of Pittsburgh is home to many colleges, universities and research facilities, the most well-known of which are Carnegie Mellon University, Duquesne University and the University of Pittsburgh. Pittsburgh is rich in art and culture. Pittsburgh museums and cultural sites include the Andy Warhol Museum, the Carnegie Museum of Art, the Frick Art & Historical Center, and Pittsburgh Center for the Arts among numerous others. Pittsburgh is also the home of the Pirates, Steelers and Penguins. The unemployment rate for Pittsburgh MSA improved from a 5.6% average in 2014 to a 5.2% average in 2015.

Altoona is the business center of Blair county, Pennsylvania with a strong retail, government and manufacturing base. The top field of employment in Altoona and the metro area is healthcare. Its location along I-99 draws from a large trade area over a wide geographic area that extends to State College and Johnstown. It serves as the headquarters for Sheetz Corporation which ranks on Forbes list of the top privately owned companies. In addition to being located adjacent to I-99 and a major highway system, Altoona also has easy access to rail and air transportation. The unemployment rate in the Altoona MSA decreased from a 5.6% average in 2014 to a 5.1% average in 2015.

Hagerstown and Washington county, Maryland offers a rare combination of business advantages providing a major crossroads location that is convenient to the entire East Coast at the intersection of I-81 and I-70. It has a workforce of over 400,000 with strengths in manufacturing and technology. It also offers an affordable cost of doing business and living within an hour of the Washington, D.C./Baltimore regions. There are also plenty of facilities and land slated for industrial/commercial development. Hagerstown has become a choice location for manufacturers, financial services, and distribution companies. The Hagerstown, MD-Martinsburg, WV MSA unemployment rate improved from a 6.0% average in 2014 to a 5.5% average in 2015.

Harrisonburg is located on I-81, providing convenient access via interstate to Northern Virginia/Washington D.C., and Richmond, in addition to points north and south along I-81. The Shenandoah Valley Regional Airport provides the same amenities as larger airports and is located 20 minutes from Harrisonburg via I-81. It has a diverse and vibrant economy, with a good blend of business interests and employment opportunities. Rockingham county is one of the top agricultural producers in Virginia. Harrisonburg is home to James Madison University and Eastern Mennonite University. Continuing growth in education, health services and technology, plus a diverse mix of manufacturing, agriculture, retail, service and tourism helps Harrisonburg/Rockingham county prosper. The City of Harrisonburg Economic Development Department has established Harrisonburg Technology Park and the Harrison Downtown Technology Zone to attract technology based firms. The Harrisonburg MSA unemployment rate improved from a

5.2% average in 2014 to a 4.6% average in 2015.

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### **EMPLOYEES**

The Company employed 341 people as of December 31, 2015 in full- and part-time positions. Approximately 162 non-supervisory employees of the Company are represented by the United Steelworkers, AFL-CIO-CLC, Local Union 2635-06. The Company is under a four year labor contract with the United Steelworkers Local that will expire on October 15, 2017. The contract calls for annual wage increases of 3.0%. Additionally, effective January 1, 2014, the Company implemented a soft freeze of its defined benefit pension plan for union employees. A soft freeze means that all existing union employees as of December 31, 2013 currently participating will remain in the defined benefit pension plan but any new union employees hired after January 1, 2014 will no longer be part of the defined benefit plan but instead will be offered retirement benefits under an enhanced 401(k) program. The Company has not experienced a work stoppage since 1979. The Company is one of an estimated ten union-represented banks nationwide.

### **INDUSTRY REGULATION**

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

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

### **CAPITAL REQUIREMENTS**

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



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As of December 31, 2015, the Company believes that its bank subsidiary was well capitalized, based on the prompt corrective action guidelines described above. As discussed below, however, the capital requirements for all banks are being increased under the Dodd-Frank Act. Specifically, on July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. The final rules implement the Basel III regulatory capital reforms, as well as certain changes required by the Dodd-Frank Act. The July 2013 final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new capital to risk-adjusted assets requirements (which includes the impact of the capital conservation buffer effective January 1, 2016) are as follows:

	Minimum Capital		Well
	Effective January 1, 2015	2016	Capitalized
Common equity tier 1 capital ratio	4.5 %	5.125 %	6.5 %
Tier 1 capital ratio	6.0 %	6.625 %	8.0 %
Total capital ratio	8.0 %	8.625 %	10.0 %

Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The capital conservation buffer, which is composed of common equity tier 1 capital, began on January 1, 2016 at the 0.625% level and will be phased in over a three year period (increasing by that amount on each January 1, until it reaches 2.5% on January 1, 2019). Implementation of the deductions and other adjustments to common equity tier 1 capital began on January 1, 2015 and will be phased-in over a three-year period (beginning at 40% on January 1, 2015, 60% on January 1, 2016 and an additional 20% per year thereafter). The Company is continuing to review the impact of these new rules and currently expects that its capital position will be more than adequate to meet the revised regulatory capital requirements.

**DIVIDEND RESTRICTIONS**

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

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

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The Company resumed paying quarterly cash dividends to common shareholders in 2013. For more information regarding quarterly cash dividends, see Part II, Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities below.

### **SARBANES-OXLEY ACT OF 2002**

The Sarbanes-Oxley Act of 2002 is not a banking law, but contains important requirements for public companies in the area of financial disclosure and corporate governance. In accordance with Section 302(a) of the Sarbanes-Oxley Act, written certifications by the Company's principal executive officer and principal financial officer are required. These certifications attest, among other things, that the Company's quarterly and annual reports filed with the SEC do not contain any untrue statement of a material fact. In response to the Sarbanes-Oxley Act of 2002, the Company adopted a series of procedures to further strengthen its corporate governance practices. The Company also requires signed certifications from managers who are responsible for internal controls throughout the Company as to the integrity of the information they prepare. These procedures supplement the Company's Code of Conduct Policy and other procedures that were previously in place. In 2005, the Company implemented and has since maintained a program designed to comply with Section 404 of the Sarbanes-Oxley Act. This program included the identification of key processes and accounts, documentation of the design of control effectiveness over process and entity level controls, and testing of the effectiveness of key controls.

### **PRIVACY PROVISIONS**

Federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about customers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to non-affiliated third parties. The privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. The Company believes it is in compliance with the various provisions.

### **USA PATRIOT ACT**

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

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

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

A provision of the Dodd-Frank Act eliminates the federal prohibitions on paying interest on demand deposits, thus

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

Bank and thrift holding companies with assets of less than \$15 billion as of December 31, 2009, such as the Company, are permitted to include trust preferred securities that were issued before May 19, 2010, such as the Company's 8.45% Trust Preferred Securities, as Tier 1 capital; however, trust preferred securities issued by



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a bank or thrift holding company (other than those with assets of less than \$500 million) after May 19, 2010, will no longer count as Tier 1 capital. Such trust preferred securities still will be entitled to be treated as Tier 2 capital.

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

### **AVAILABLE INFORMATION**

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

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

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

Not applicable.

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

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

### **ITEM 2. PROPERTIES**

The principal offices of the Company and the Bank occupy the five-story AmeriServ Financial building at the corner of Main and Franklin Streets in Johnstown plus twelve floors of the building adjacent thereto. The Company occupies the main office and its subsidiary entities have 13 other locations which are owned. Nine additional locations are leased with terms expiring from January 1, 2016 to August 31, 2030.

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

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

**ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.

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

As of January 29, 2016, the Company had 3,416 shareholders of record for its common stock. The Company's common stock is traded on the NASDAQ Global Market System under the symbol ASRV. The following table sets forth the actual high and low closing prices and the cash dividends declared per share for the periods indicated:

	PRICES		CASH DIVIDENDS DECLARED
	HIGH	LOW	
Year ended December 31, 2015:			
First Quarter	<b>\$ 3.13</b>	<b>\$ 2.88</b>	<b>\$ 0.01</b>
Second Quarter	<b>3.44</b>	<b>3.00</b>	<b>0.01</b>
Third Quarter	<b>3.41</b>	<b>3.20</b>	<b>0.01</b>
Fourth Quarter	<b>3.39</b>	<b>3.16</b>	<b>0.01</b>
Year ended December 31, 2014			
First Quarter	\$ 3.91	\$ 3.00	\$ 0.01
Second Quarter	3.88	3.40	0.01
Third Quarter	3.52	3.14	0.01
Fourth Quarter	3.31	3.02	0.01

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

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## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

## SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA

	AT OR FOR THE YEAR ENDED DECEMBER 31,									
	2015		2014		2013		2012		2011	
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)									
SUMMARY OF INCOME STATEMENT DATA:										
Total interest income	\$41,881		\$40,441		\$39,343		\$39,917		\$41,964	
Total interest expense	6,520		6,397		6,482		7,714		9,681	
Net interest income	35,361		34,044		32,861		32,203		32,283	
Provision (credit) for loan losses	1,250		375		(1,100 )		(775 )		(3,575 )	
Net interest income after provision (credit) for loan losses	34,111		33,669		33,961		32,978		35,858	
Total non-interest income	15,267		14,323		15,744		14,943		13,569	
Total non-interest expense	41,038		43,371		42,223		40,641		40,037	
Income before income taxes	8,340		4,621		7,482		7,280		9,390	
Provision for income taxes	2,343		1,598		2,289		2,241		2,853	
Net income	\$5,997		\$3,023		\$5,193		\$5,039		\$6,537	
Net income available to common shareholders	\$5,787		\$2,813		\$4,984		\$4,211		\$5,152	
PER COMMON SHARE DATA:										
Basic earnings per share	\$0.31		\$0.15		\$0.26		\$0.21		\$0.24	
Diluted earnings per share	0.31		0.15		0.26		0.21		0.24	
Cash dividends declared	0.04		0.04		0.03		0.00		0.00	
Book value at period end	5.19		4.97		4.91		4.67		4.37	
BALANCE SHEET AND OTHER DATA:										
Total assets	\$1,148,922		\$1,089,263		\$1,056,036		\$1,000,991		\$979,076	
Loans and loans held for sale, net of unearned income	883,987		832,131		786,748		731,741		670,847	
Allowance for loan losses	9,921		9,623		10,104		12,571		14,623	
Investment securities available for sale	119,467		127,110		141,978		151,538		182,923	
Investment securities held to maturity	21,419		19,840		18,187		13,723		12,280	
Deposits	903,294		869,881		854,522		835,734		816,420	
Total borrowed funds	117,483		93,965		79,640		41,745		34,850	
Stockholders' equity	118,973		114,407		113,307		110,468		112,352	
Full-time equivalent employees	318		314		352		350		347	
SELECTED FINANCIAL RATIOS:										
Return on average assets	0.54 %		0.29 %		0.51 %		0.51 %		0.68 %	
Return on average total equity	5.10		2.61		4.69		4.51		5.90	
Loans and loans held for sale, net of unearned income, as a percent of deposits, at period end	97.86		95.66		92.07		87.56		82.17	
Ratio of average total equity to average assets	10.65		10.92		10.86		11.36		11.49	
Common stock cash dividends as a percent of net income available to common shareholders	13.03		26.73		11.36					
Interest rate spread	3.33		3.36		3.39		3.43		3.47	

Net interest margin	<b>3.49</b>	3.52	3.56	3.65	3.72
Allowance for loan losses as a percentage of loans, net of unearned income, at period end	<b>1.13</b>	1.16	1.29	1.74	2.20
Non-performing assets as a percentage of loans and other real estate owned, at period end	<b>0.71</b>	0.35	0.52	1.00	0.78
Net charge-offs as a percentage of average loans	<b>0.11</b>	0.11	0.18	0.19	0.24
Ratio of earnings to fixed charges and preferred dividends: <sup>(1)</sup>					
Excluding interest on deposits	<b>4.68X</b>	3.30X	5.13X	3.80X	4.11X
Including interest on deposits	<b>2.19</b>	1.67	2.07	1.80	1.83
Cumulative one year interest rate sensitivity gap ratio, at period end	<b>1.23</b>	1.13	1.09	1.30	1.29

The ratio of earnings to fixed charges and preferred dividends is computed by dividing the sum of income before (1) taxes, fixed charges, and preferred dividends by the sum of fixed charges and preferred dividends. Fixed charges represent interest expense and are shown as both excluding and including interest on deposits.

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

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013

**2015 SUMMARY OVERVIEW:**

Net income was \$1,374,000, or \$0.07 per share, for the fourth quarter of 2015. This was \$625,000, or \$0.03 per share, higher than the fourth quarter of 2014. Net income for the full year was \$5,997,000, or \$0.31 per share, which represents an increase by \$2,974,000, or \$0.16 per share, from 2014. The Company's 2015 results illustrate the effectiveness from very specific profitability improvement actions executed to permit the Company to continue growing the business but to avoid expense increases so as to improve per share profitability.

We have previously emphasized the Company's determination to become a significant competitor in every market where the company has a presence. The reports from the marketplace continue to be encouraging. Net loan growth year over year totaled almost \$52 million while deposits increased by \$33 million as both of these activities set new year ending records for AmeriServ. These marketplace successes also found support from a more efficient company. Operating non-interest expense was \$1.7 million, or 3.9%, lower than 2014. The now proven effectiveness of the 2014 profitability efforts has resulted in a new enthusiasm among staff members for ways to trim expenses.

This is not to say that 2015 was without its challenges. The worldwide energy turmoil resulted in the bankruptcy of a Western Pennsylvania energy related company. However, the Company's total loan portfolio still contains a lower level of troubled loans than the average level at the Company's peer banks across the nation. The lending standards of the Company remain consistent with the goal of supporting qualified borrowers over the ups and downs of the business cycle.

The Federal Reserve's interest rate policies that were adopted in 2008 have severely punished the thrifty, those living on pensions and community banks throughout the country. The squeeze on the banker's net interest margin hurts the availability of credit. It is understandable that the Federal Reserve would respond to events like the freezing of credit markets in 2008, but this seemed to encourage the Federal Reserve to seek to manage the entire economy permanently. Let us hope they can unwind their involvement without further disturbances in this very large and complex economy.

The Board and the management team of the Company remain committed to a continuation of time tested banking management practices. These include strong capital, deep liquidity and a conservative balance sheet. To further these goals, in January 2016, the Company paid off the \$21 million of US Treasury preferred shares related to the SBLF program using cash on hand and net proceeds from the private placement of \$7.65 million in aggregate principal amount of 6.5% fixed rate subordinated notes. These SBLF funds were a way for the Treasury to encourage banks to lend to small businesses. It worked very well! The Company increased its roster of small business borrowers throughout its regions. However, the Treasury would have increased its dividend rate on the preferred shares from 1% per year to 9% per year in February 2016. The Company will continue to lend to small businesses and will continue to be a well-capitalized community bank, but the Company will not experience this dividend rate increase for those shares are retired. This action was spelled out in detail in the Company's press release from January 28, 2016.

Finally, a comment about the turmoil in financial markets. The domestic economy of the U.S. has been dynamic and ever-changing throughout history. The question we are all forced to answer is how much risk to accept in our economic affairs. The events of 2015 would suggest that it is best to limit risk when contemplating a dynamic economy. This has been and will be our guiding principle as we pursue our climb to financial respectability in 2016 and beyond.

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

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)		
Net income	\$ 5,997	\$ 3,023	\$ 5,193
Net income available to common shareholders	5,787	2,813	4,984
Diluted earnings per share	0.31	0.15	0.26
Return on average assets	0.54 %	0.29 %	0.51 %
Return on average equity	5.10	2.61	4.69

The Company reported net income available to common shareholders of \$5.8 million, or \$0.31 per diluted common share, for 2015. This represented a 107% increase in earnings per share from 2014 where net income available to common shareholders totaled \$2.8 million, or \$0.15 per diluted share. Factors causing this increase in earnings were solid loan and deposit growth in our community banking business which contributed to an increase of \$1.3 million, or 3.9%, in net interest income while increasing revenue from our trust and wealth management business contributed to 7.5% growth in non-interest income in 2015. Additionally, operating expenses declined by \$2.3 million, or 5.4%, as we improved the ongoing efficiency of the Company by successfully executing several profitability improvement initiatives.

The Company reported net income available to common shareholders of \$2.8 million, or \$0.15 per diluted common share, for 2014. This represented a 42.3% decrease in earnings per share from 2013 where net income available to common shareholders totalled \$5.0 million, or \$0.26 per diluted share. Factors contributing to this reduction in earnings were a \$1.5 million unfavorable swing in the provision for loan losses, a \$1.4 million reduction in non-interest revenue, and a \$1.1 million increase in non-interest expense. The non-interest expense increase included a \$669,000 goodwill impairment charge and a \$376,000 fourth quarter pension charge related to 25 employees who elected to participate in an early retirement incentive program. These negative items were partially offset by a \$1.2 million increase in net interest income due to continued growth of our loan portfolio while maintaining excellent asset quality.

The Company reported net income available to common shareholders of \$5.0 million, or \$0.26 per diluted common share, for 2013. This represented a 23.8% increase in earnings per share from 2012 where net income available to common shareholders totalled \$4.2 million, or \$0.21 per diluted share. Growth in total revenue, improved asset quality, and effective capital management caused the increase in earnings per share in 2013. Specifically, a \$658,000 increase in net interest income resulted from continued strong growth of our loan portfolio, as total loans grew by \$55 million, or 7.5%. Material loan growth occurred in loan categories that qualified for the SBLF through the Company's loan production offices. As a result of this growth in SBLF qualified loans, the Company locked in the lowest preferred dividend rate available under the program of 1% until its redemption in the first quarter of 2016. This lower rate saved the Company \$619,000 in preferred stock dividend payments in 2013 and was a key factor contributing to the earnings per share growth. Additionally, the calculation of earnings per share benefitted from a 713,000, or 3.6%, reduction in average shares outstanding due to the success of the Company's common stock repurchase program that was completed in the second quarter of 2013. There was also \$325,000 more earnings benefit from negative loan loss provisions in 2013 due to the Company's improved asset quality. These positive items were partially offset by a \$1.6 million or 3.9% increase in non-interest expense and slightly higher income tax expense.





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

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS, EXCEPT RATIOS)		
Interest income	\$ <b>41,881</b>	\$ 40,441	\$ 39,343
Interest expense	<b>6,520</b>	6,397	6,482
Net interest income	<b>35,361</b>	34,044	32,861
Net interest margin	<b>3.49 %</b>	3.52 %	3.56 %

**2015 NET INTEREST PERFORMANCE OVERVIEW...** The Company's net interest income increased by \$1.3 million, or 3.9%, for the full year of 2015 when compared to the full year 2014 as net interest margin compression was more than fully mitigated by earning asset growth, a greater level of prepayment fees on early loan payoffs and an increased dividend from the FHLB of Pittsburgh. The Company's net interest margin of 3.49% for the full year 2015 was three basis points lower than the net interest margin of 3.52% for the full year 2014. The earning asset growth occurred in the loan portfolio as total loans averaged \$857 million for the full year of 2015 which is \$52 million, or 6.5%, higher than the \$805 million average for the full year of 2014. This loan growth reflects the successful results of the Company's sales calling efforts, with an emphasis on generating commercial loans and owner occupied commercial real estate loans particularly through its loan production offices in the stronger growth markets of Pittsburgh and Altoona in Pennsylvania, Hagerstown, Maryland and Harrisonburg, Virginia. Overall, total interest income increased by \$1.4 million, or 3.6%, for the full year 2015.

Total interest expense has been well controlled in 2015 as it increased by \$123,000, or 1.9%, for the full year of 2015 due to tight control of our cost of funds through disciplined deposit pricing. Total deposit interest expense decreased by \$137,000, or 2.8%, in 2015 when compared to last year. Even with this reduction in deposit costs, the Company continues to have a strong loyal core deposit base and success in cross-selling new loan customers into deposit products. Specifically, total deposits averaged \$893 million for full year of 2015 which is \$21 million, or 2.4%, higher than the \$872 million average in 2014. The Company is pleased that a meaningful portion of this deposit growth occurred in non-interest bearing demand deposit accounts. This decreased interest expense for deposits has been more than offset by a \$260,000 increase in the interest cost for borrowings as the Company has utilized more FHLB term advances to extend borrowings and provide protection against rising interest rates.

Overall, the Company expects that it will need to continue to grow earning assets to achieve net interest income growth in 2016 as net interest margin compression is expected to continue given the ongoing challenges of the exceptionally low interest rate environment. Solid commercial loan pipelines suggest that the Company should be able to again grow the loan portfolio in 2016 although we expect pricing pressures on new commercial loans to continue to be intense.

**COMPONENT CHANGES IN NET INTEREST INCOME: 2015 VERSUS 2014...** Regarding the separate components of net interest income, the Company's total interest income in 2015 increased by \$1.4 million, or 3.6%, when compared to 2014. This increase was due to a \$44.4 million increase in average earning assets due to an increase in average loans, partially offset by a four basis point decline in the earning asset yield from 4.18% to 4.14%. Within the earning asset base, the yield on the total loan portfolio decreased by eight basis points from 4.52% to 4.44% as a

greater level of prepayment fees on early loan payoffs was more than offset by the impact from new loans having yields that are below the rate on the maturing instruments that they are replacing. However, the yield on total investment securities increased by seven basis points from 2.60% to 2.67% due to an increased dividend from the FHLB of Pittsburgh and a reduction in premium amortization on mortgage backed securities which resulted from a slowdown in mortgage prepayment speeds in 2015. Investment securities interest revenue declined by \$223,000 in 2015 due to a \$12 million decrease in the average investment securities portfolio as the Company has utilized cash flow from securities to help fund the previously mentioned loan growth.

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The Company's total interest expense for 2015 increased by \$123,000, or 1.9%, when compared to 2014. This increase in interest expense was due to an increased level of average FHLB borrowed funds which more than offset a lower cost of funds as the cost of interest bearing liabilities declined by one basis point to 0.81%. Management's strategy to carefully price interest rates paid on all deposit categories has not had a negative impact on deposit growth and reflects the loyalty of the bank's core deposit base. The overall cost of interest bearing deposits decreased by two basis points to 0.66% in spite of a \$5.4 million increase in the total average volume. The Company has utilized term advances from the FHLB, with maturities ranging between three and five years, to help fund its earning asset growth and manage interest rate risk. The average balance of FHLB term advances has increased by \$13 million while the average cost of these advances has increased by 20 basis points to 1.21%. Overall, total FHLB borrowings averaged \$71 million or 6.4% of total assets during 2015.

**2014 NET INTEREST INCOME PERFORMANCE OVERVIEW...** The Company's net interest income for the full year 2014 increased by \$1.2 million, or 3.6%, when compared to the full year 2013. The Company's net interest margin of 3.52% for the full year 2014 was four basis points lower than the net interest margin of 3.56% for the full year 2013. The Company has been able to mitigate this net interest margin pressure and to increase net interest income by both growing its earning assets and reducing its cost of funds. Specifically, the earning asset growth has occurred in the loan portfolio as total loans averaged a record \$805 million for the full year 2014 which is \$58 million, or 7.8%, higher than the \$746 million average for the 2013 year. This loan growth reflects the successful results of the Company's more intensive sales calling efforts, with an emphasis on generating commercial loans and owner occupied CRE loans, which qualify as SBLF loans. Interest income in 2014 has also benefitted from reduced premium amortization on mortgage backed securities due to slower mortgage prepayment speeds. Overall, total interest income increased by \$1.1 million in 2014. Additionally, the increase in loans caused the Company's loan to deposit ratio to average 92.3% in 2014 compared to 88.2% in 2013.

Total interest expense for the 2014 year declined by \$85,000 from the full year 2013 due to the Company's proactive efforts to reduce deposit costs. Even with this reduction in deposit costs, the Company still experienced growth in deposits which reflects the loyalty of our core deposit base and ongoing efforts to cross sell new loan customers into deposit products. Specifically, total deposits averaged a record level of \$872 million for the full year 2014 which is \$25 million, or 3.0%, higher than the \$847 million average for the full year 2013. This decreased interest expense for deposits has been partially offset by a \$190,000 increase in the interest cost for borrowings as the Company has utilized more Federal Home Loan Bank (FHLB) term advances to extend borrowings and provide protection against rising interest rates.

**COMPONENT CHANGES IN NET INTEREST INCOME: 2014 VERSUS 2013...** Regarding the separate components of net interest income, the Company's total interest income in 2014 increased by \$1.1 million when compared to 2013. This increase was due to a \$44.1 million increase in average earning assets due to an increase in average loans partially offset by a nine basis point decline in the earning asset yield from 4.27% to 4.18%. Within the earning asset base, the yield on the total loan portfolio decreased by 19 basis points from 4.71% to 4.52% as new loans typically have yields that are below the rate on the maturing instruments that they are replacing. However, the yield on total investment securities increased by 10 basis points from 2.50% to 2.60% due primarily to a reduction in premium amortization on mortgage backed securities due to a slowdown in mortgage prepayment speeds in 2014. Investment securities interest revenue declined by \$122,000 in 2014 due to an \$11 million decrease in the average investment securities portfolio as the Company has utilized cash flow from securities to help fund the previously mentioned loan growth.

The Company's total interest expense for 2014 decreased by \$85,000, or 1.3%, when compared to 2013. This decrease in interest expense was due to a lower cost of funds as the cost of interest bearing liabilities declined by six basis points to 0.82%. Management's decision to further reduce interest rates paid on all deposit categories has not had a

negative impact on deposit growth and reflects the loyalty of the bank's core deposit base. This decrease in funding costs occurred in spite of a \$43.4 million increase in the volume of average interest bearing liabilities. The Company has utilized term advances from the FHLB, with maturities ranging between three and five years, to help fund its earning asset growth and manage interest rate risk. The average balance of FHLB term advances has increased by \$15 million while the average cost of these advances has increased by only 17 basis points to 1.01%. Overall, total FHLB borrowings averaged \$52 million or 4.9% of total assets during 2014.

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The table that follows provides an analysis of net interest income on a tax-equivalent basis setting forth (i) average assets, liabilities, and stockholders' equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables loan balances include non-accrual loans, and interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as interest recorded on certain non-accrual loans as cash is received. Regulatory stock is included within available for sale investment securities for this analysis. Additionally, a tax rate of approximately 34% is used to compute tax-equivalent yields.

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Net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The table below sets forth an analysis of volume and rate changes in net interest income on a tax-equivalent basis. For purposes of this table, changes in interest income and interest expense are allocated to volume and rate categories based upon the respective percentage changes in average balances and average rates. Changes in net interest income that could not be specifically identified as either a rate or volume change were allocated proportionately to changes in volume and changes in rate.

	2015 vs. 2014			2014 vs. 2013		
	INCREASE (DECREASE)			INCREASE (DECREASE)		
	DUE TO CHANGE IN:			DUE TO CHANGE IN:		
	AVERAGE	RATE	TOTAL	AVERAGE	RATE	TOTAL
	VOLUME			VOLUME		
	(IN THOUSANDS)					
INTEREST EARNED ON:						
Loans, net of unearned income	\$1,398	\$260	\$1,658	\$3,853	\$(2,632)	\$1,221
Deposits with banks	16	(13 )	3		(1 )	(1 )
Short-term investments in money market funds	42	(35 )	7	(1 )		(1 )
Investment securities:						
Available for sale	(276 )	(2 )	(278 )	(332 )	159	(173 )
Held to maturity	53	2	55	44	7	51
Total investment securities	(223 )		(223 )	(288 )	166	(122 )
Total interest income	1,233	212	1,445	3,564	(2,467)	1,097
INTEREST PAID ON:						
Interest bearing demand deposits	9	(1 )	8	39	14	53
Savings deposits	17	(5 )	12	5		5
Money market	70	(14 )	56	118	(93 )	25
Other time deposits	(226 )	13	(213 )	(150 )	(208 )	(358 )
Federal funds purchased and other short-term borrowings	28	3	31	3	6	9
Advances from Federal Home Loan Bank	200	25	225	145	36	181
Subordinated debt	4		4			
Total interest expense	102	21	123	160	(245 )	(85 )
Change in net interest income	\$1,131	\$191	\$1,322	\$3,404	\$(2,222)	\$1,182

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

	AT DECEMBER 31,					
	2015		2014		2013	
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Total accruing loans past due 30 to 89 days	\$4,396		\$2,643		\$3,264	
Total non-accrual loans	6,066		2,195		2,871	
Total non-performing assets including TDRs <sup>(1)</sup>	6,297		2,917		4,109	
Loan delinquency as a percentage of total loans, net of unearned income	0.50	%	0.32	%	0.42	%
Non-accrual loans as a percentage of total loans, net of unearned income	0.69		0.27		0.37	
Non-performing assets as a percentage of total loans, net of unearned income, and other real estate owned	0.71		0.35		0.52	
Non-performing assets as a percentage of total assets	0.55		0.27		0.39	
Total classified loans (loans rated substandard or doubtful)	\$8,566		\$11,229		\$11,779	

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

The Company continues to maintain strong asset quality even though non-performing loans increased late in 2015. The increase was largely due to the transfer into non-accrual status of a \$4.1 million loan to a customer in the fracking industry that filed for bankruptcy protection in the fourth quarter. Of this total \$4.1 million loan, \$2.5 million relates to an equipment loan that was used to finance certain components of a new frack water treatment plant and \$1.6 million relates to a loan that was used to finance the purchase of 10 truck tractors and 5 truck trailers. At year-end 2015, the Company had established specific reserves within its allowance for loan losses of \$865,000 on the water treatment plant loan and \$469,000 on the tractor and trailer loan. Recent developments from the bankruptcy process indicate that the truck tractors and trailers should be returned from the borrower to the Company for disposition in the near future.

In regards to the frack water treatment plant, the Company has not yet been able to determine if the plant is fully operational despite the borrower's intent to get the plant in that condition in order to maximize potential value. The Company's ultimate loss on this loan would increase significantly should the plant not be able to be sold as a turn-key operation ready plant. This is the Company's only meaningful direct loan exposure to the energy industry. The continued successful ongoing problem credit resolution efforts of the Company is demonstrated in the table above as levels of non-accrual loans, non-performing assets, classified loans and low loan delinquency levels are well below 1% of total loans. We continue to closely monitor the loan portfolio given the uneven recovery in the economy and the number of relatively large-sized commercial and CRE loans within the portfolio. As of December 31, 2015, the 25



largest credits represented 24.0% of total loans outstanding.

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

	YEAR ENDED DECEMBER 31,				
	2015	2014	2013	2012	2011
	(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)				
Balance at beginning of year	<b>\$9,623</b>	\$10,104	\$12,571	\$14,623	\$19,765
Charge-offs:					
Commercial	(170 )	(172 )	(50 )	(345 )	(953 )
Commercial loans secured by real estate	(250 )	(708 )	(1,777 )	(796 )	(1,700 )
Real estate-mortgage	(753 )	(322 )	(139 )	(420 )	(85 )
Consumer	(188 )	(121 )	(154 )	(200 )	(203 )
Total charge-offs	(1,361 )	(1,323 )	(2,120 )	(1,761 )	(2,941 )
Recoveries:					
Commercial	101	141	80	138	831
Commercial loans secured by real estate	111	231	481	245	331
Real estate-mortgage	171	71	122	54	53
Consumer	26	24	70	47	159
Total recoveries	409	467	753	484	1,374
Net charge-offs	(952 )	(856 )	(1,367 )	(1,277 )	(1,567 )
Provision (credit) for loan losses	1,250	375	(1,100 )	(775 )	(3,575 )
Balance at end of year	<b>\$9,921</b>	\$9,623	\$10,104	\$12,571	\$14,623
Loans and loans held for sale, net of unearned income:					
Average for the year	<b>\$857,015</b>	\$804,721	\$746,490	\$688,736	\$662,746
At December 31	<b>880,984</b>	827,080	786,748	731,741	670,847
As a percent of average loans:					
Net charge-offs	0.11 %	0.11 %	0.18 %	0.19 %	0.24 %
Provision (credit) for loan losses	0.15	0.05	(0.15 )	(0.11 )	(0.54 )
Allowance as a percent of each of the following:					
Total loans, net of unearned income	1.13	1.16	1.29	1.74	2.20
Total accruing delinquent loans (past due 30 to 89 days)	225.68	364.09	309.56	363.74	440.58
Total non-accrual loans	163.55	438.21	351.93	216.22	288.14
Total non-performing assets	157.55	329.89	245.90	174.02	281.27
Allowance as a multiple of net charge-offs	10.42x	11.24x	7.39x	9.84x	9.33x

For 2015, the Company recorded a \$1,250,000 provision for loan losses which represented an increase of \$875,000 when compared to the 2014 full year provision of \$375,000. The higher provision that was needed this year was largely due to the transfer into non-accrual status of a \$4.1 million loan to a customer in the fracking industry that filed for bankruptcy protection in the fourth quarter. The higher provision recorded in 2015 was also needed to support the continuing growth of the loan portfolio and cover net loan charge-offs. For the full year, there were net loan

charge-offs of \$952,000, or 0.11% of total loans, in 2015 compared to net loan charge-offs of \$856,000, or 0.11% of total loans, in 2014. Overall, even with the fourth quarter

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increase in non-performing assets, the Company continued to maintain strong asset quality in 2015. At December 31, 2015, non-performing assets totaled \$6.3 million, or 0.71% of total loans. When determining the provision for loan losses, the Company considers a number of factors, some of which include periodic credit reviews, non-performing assets, loan delinquency and charge-off trends, concentrations of credit, loan volume trends and broader local and national economic trends. In summary, the allowance for loan losses provided 158% coverage of non-performing loans, and 1.13% of total loans, at December 31, 2015, compared to 400% coverage of non-performing loans, and 1.16% of total loans, at December 31, 2014. The Company presently expects that it will have greater positive loan loss provisions in 2016 to support the expected growth of the loan portfolio.

For 2014, the Company recorded a \$375,000 provision for loan losses compared to a \$1.1 million negative provision for the 2013 year. This represents an unfavorable swing of \$1.5 million between years and is a significant factor contributing to the lower earnings in 2014. The positive provision in 2014 was needed to partially cover net loan charge-offs and support the continuing growth of the loan portfolio. In 2014, actual credit losses realized through net charge-offs totaled \$856,000, or 0.11% of average total loans, which represents a decrease from the 2013 year when net charge-offs totaled \$1.4 million, or 0.18% of average total loans. Overall, for the 2014 year, the Company continued to maintain outstanding asset quality. At December 31, 2014, non-performing assets totaled \$2.9 million, or only 0.35% of total loans, which represents the first time that our non-performing assets have been under \$3 million since 2007. In summary, the ALL provided a strong 400% coverage of non-performing loans, and 1.16% of total loans, at December 31, 2014, compared to 327% coverage of non-performing loans, and 1.29% of total loans, at December 31, 2013.

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

Even though residential real estate-mortgage loans comprise 29.3% of the Company's total loan portfolio, only \$1.2 million or 11.8% of the total ALL is allocated against this loan category. The residential real estate-mortgage loan allocation is based upon the Company's three-year historical average of actual loan charge-offs experienced in that category and other qualitative factors. The disproportionately higher allocations for commercial loans and commercial loans secured by real estate reflect the increased credit risk associated with this type of lending, the Company's historical loss experience in these categories, and other qualitative factors. The large decline in the part of the allowance allocated to commercial loans secured by real estate reflects the continued asset quality improvements in this sector.

Based on the Company's ALL methodology and the related assessment of the inherent risk factors contained within the Company's loan portfolio, we believe that the ALL is adequate at December 31, 2015 to cover losses within the Company's loan portfolio.

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**NON-INTEREST INCOME...** Non-interest income for 2015 totalled \$15.3 million, an increase of \$944,000, or 6.6%, from 2014. Factors contributing to this higher level of non-interest income in 2015 included:

a \$869,000 increase in Bank Owned Life Insurance (BOLI) revenue for the full year due to the receipt of four death claims in 2015.

a \$579,000, or 7.5%, increase in trust and investment advisory fees as a result of increased assets under management which reflects successful new business development activities as well as effective management of existing customer accounts in this volatile market environment. Trust assets under administration totalled \$2.0 billion as of December 31, 2015.

a \$207,000, or 10.6%, decrease in service charges on deposit accounts due to fewer overdraft charges and account analysis fees as customers have generally maintained higher balances in their checking accounts in 2015.

mortgage related fees dropped by \$199,000 for the full year due to less mortgage refinance activity in 2015. there was a decrease of \$106,000 in revenue from investment security sale transactions as the Company recognized a lower level of gains on the sale of securities with low balances in 2015 compared to gains realized on the sale of rapidly pre-paying mortgage backed securities in 2014.

Non-interest income for 2014 totalled \$14.3 million, a decrease of \$1.4 million, or 9.0%, from 2013. Factors contributing to this lower level of non-interest income in 2014 included:

reduced revenue from residential mortgage banking activities was caused by both lower refinance activity due to higher mortgage rates and reduced purchase activity in 2014. As a result, gains realized on residential mortgage loan sales into the secondary market declined by \$341,000 or 31.3% and mortgage related fees dropped by \$183,000 due largely to lower mortgage origination and underwriting fees.

a \$216,000, or 9.9% decrease in service charges on deposit accounts due to fewer overdraft charges and account analysis fees as customers have generally maintained higher balances in their checking accounts in 2014.

a \$250,000, or 25.1%, decrease in Bank Owned Life Insurance (BOLI) revenue due largely to the receipt of a death claim payment in 2013.

a \$357,000 decrease in other income due to a \$226,000 reduction in financial services commission revenue and a net unfavorable swing of \$140,000 on OREO property transactions.

**NON-INTEREST EXPENSE...** Non-interest expense for 2015 totalled \$41.0 million, which represents a \$2.3 million, or 5.4%, decrease from 2014. Factors contributing to the lower non-interest expense in 2015 included:

salaries and employee benefits were down by \$918,000, or 3.7%, for the full year of 2015, due to 21 fewer average full time equivalent employees as certain employees who elected to participate in an early retirement program in late 2014 were not replaced in order to achieve efficiencies identified as part of a profitability improvement program. As part of this early retirement program, the Company recognized a \$400,000 pension charge in the fourth quarter of 2014.

the recognition of a \$669,000 goodwill impairment charge related to its investment advisory subsidiary in the third quarter of 2014. There was no such charge in 2015.

professional fees decreased by \$406,000, or 7.5% for the year as a result of lower legal fees, director s fees and consulting costs in 2015.

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Non-interest expense for 2014 totalled \$43.4 million, a \$1.1 million, or 2.7%, increase from 2013. Factors contributing to the higher non-interest expense in 2014 included:

professional fees increased by \$1.1 million in 2014 due to higher legal costs related to litigation against WCCA's former CEO, the consulting costs associated with our profitability improvement project and new recurring costs related to outsourcing our computer operations and statement processing to a third party vendor. The overall cost savings benefit from outsourcing these services is captured in lower personnel costs in these departments and reduced software expense, which is a key factor contributing to the decline in other expenses of \$199,000 in 2014.

the recognition of a \$669,000 goodwill impairment charge during the third quarter of 2014. The voluntary departure of WCCA's former CEO, and the related litigation against him for violations of his employment agreement, caused disruption within the WCCA customer base during 2014. This disruption ultimately led to the loss of certain clients and a reduction in the projected earnings capacity of WCCA which caused the Company to incur the goodwill impairment charge.

a \$293,000 decrease in miscellaneous taxes and insurance due to reduced Pennsylvania bank shares tax expense resulting from a change in the calculation methodology that took effect January 1, 2014.

a \$155,000, or 0.6%, decrease in salaries and employee benefits expense due to lower salaries and incentive compensation in 2014. This reduction occurred even with a \$376,000 pension charge in the fourth quarter of 2014 related to 25 employees who elected to participate in an early retirement incentive program.

**INCOME TAX EXPENSE...** The Company recorded income tax expense of \$2.3 million, or an effective tax rate of 28.1%, in 2015 compared to the income tax expense of \$1.6 million, or an effective tax rate of 34.6%, for 2014. The higher income tax expense is due to the Company's increased earnings in 2015 as the Company's effective tax rate is lower than 2014 due to an increase in tax free revenue from bank owned life insurance. BOLI is the Company's largest source of tax-free earnings. Contributing to the higher effective tax rate in 2014 was the non-deductibility of the goodwill impairment charge for tax purposes. The Company's deferred tax asset was \$9.0 million at December 31, 2015 and relates primarily to AMT carryforwards and the ALL.

**SEGMENT RESULTS...** Retail banking's net income contribution was \$3.0 million in 2015 compared to \$2.2 million in 2014 and \$2.8 million in 2013. The increased net income contribution in 2015 reflects increased net interest income and reduced non-interest expense. Net interest income was positively impacted by an increased funding benefit from deposits provided by this segment, which more than fully mitigated the ongoing net interest margin pressure from the continued low interest rate environment. Lower personnel costs and increased efficiencies related to the profitability improvement program were the primary contributor to the reduced level of non-interest expense as a result of fewer FTEs after certain employees elected to participate in the early retirement program late in 2014. These positive items more than offset a lower level of non-interest income as increased revenue from BOLI was more than offset by reduced deposit service charges and lower residential mortgage banking revenues.

The commercial banking segment reported net income of \$5.4 million in 2015 compared to net income of \$4.2 million in 2014 and \$5.0 million in 2013. The net income contribution for 2015 increased as a result of strong growth in the commercial and commercial real estate loan portfolios which resulted in a higher level of net interest income. Also positively impacting net income was a greater level of prepayment fees on early loan payoffs. Additionally, similar to the retail segment, total non-interest expenses were lower due to the early retirement program and other increased efficiencies from the profitability program. Partially offsetting these favorable items was an increase of \$740,000 in the provision for loan losses.

The trust segment's net income contribution was \$1.3 million in 2015 compared to \$564,000 in 2014 and \$1.2 million in 2013. The net income contribution for 2015 reflects increased trust and investment advisory fees as a result of increased assets under management which reflects successful new business development activities as well as effective management of existing customer accounts in this volatile market environment. Also, WCCA returned to profitability

as the client base stabilized and began to exhibit growth. The 2014 year was negatively impacted by the previously discussed \$669,000 goodwill impairment charge at WCCA.

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Slightly offsetting these favorable items was lower financial services revenue due to fewer production personnel in 2015. Additionally, expenses for the trust segment were negatively impacted by approximately \$300,000 of professional fees related to addressing a trust operations trading error. We expect to incur an additional \$300,000 to \$400,000 of costs in the first quarter of 2016 to complete and resolve this matter. Overall, the fair market value of trust assets under administration totaled \$1.975 billion at December 31, 2015, an increase of \$90.9 million, or 4.8%, from the December 31, 2014 total of \$1.884 billion.

The investment/parent segment reported a net loss of \$3.8 million in 2015 which was comparable with the net loss of \$3.9 million in 2014 and \$3.8 million in 2013. Overall this segment has felt the most earnings pressure from the continued low interest rate environment and declining investment security balances which have been utilized to help fund loan growth. Additionally, all of the interest expense of the trust preferred securities is allocated to this segment. The Company did generate investment security gains of \$71,000 in 2015 and \$177,000 in 2014 from the sale of certain low balance, rapidly prepaying mortgage backed securities which had a favorable impact on earnings in this segment.

For greater discussion on the future strategic direction of the Company's key business segments, see Management's Discussion and Analysis Forward Looking Statements.

**BALANCE SHEET...** The Company's total consolidated assets of \$1.149 billion at December 31, 2015 grew by \$60 million or 5.5% from the \$1.089 billion level at December 31, 2014. This asset growth was due primarily to a \$51.9 million or 6.2% increase in total loans in 2015. This loan growth reflects the successful results of the Company's more intensive sales calling efforts with an emphasis on generating commercial loans and owner occupied CRE loans particularly through its loan production offices. This loan increase was partially offset by a \$6.1 million decrease in investment securities as the Company utilized this item to help fund the loan growth.

The Company also funded the previously mentioned asset growth with a combination of both increased deposits (\$33 million) and FHLB borrowings (\$16 million). The FHLB term advances, with maturities between 3 and 5 years, now total \$48 million as the Company has utilized these advances to help manage interest rate risk in a rising rate environment. Late in December, the Company successfully completed a \$7.65 million subordinated debt issuance. Other liabilities decreased by \$1.8 million due to a decrease in the Company's pension liability. Total stockholders equity increased by \$4.6 million since year-end 2014 mainly due to increased retained earnings as the Company's net income available to common shareholders more than exceeded funds used for common stock cash dividend payments. The Company continues to be considered well capitalized for regulatory purposes with a risk based capital ratio of 15.55% and an asset leverage ratio of 11.41% at December 31, 2015. The Company's book value per common share was \$5.19, its tangible book value per common share was \$4.56 and its tangible common equity to tangible assets ratio was 7.57% at December 31, 2015.

**LIQUIDITY...** The Company's liquidity position has been strong during the last several years. Our core retail deposit base has grown over the past four years and has been adequate to fund the Company's operations. Cash flow from maturities, prepayments and amortization of securities was also used to help fund loan growth. We strive to operate our loan to deposit ratio in a range of 85% to 100%. At December 31, 2015, the Company's loan to deposit ratio was 97.9%. Given current commercial loan pipelines and the continued development of our four existing loan production offices, we are optimistic that we can maintain our loan to deposit ratio at its current level and within our guideline parameters.

Liquidity can also be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents increased by \$15.6 million from December 31, 2014, to December 31, 2015, due to \$55.7 million of cash provided by financing activities and \$9.8 of cash provided by operating activities. This was partially offset by \$49.9 million of



cash used in investing activities. Within investing activities, cash advanced for new loan fundings and purchases totalled \$261.3 million and was \$54.2 million higher than the \$207.2 million of cash received from loan principal payments and sales. Within financing activities, deposits increased by \$33.3 million, which was used to help fund the overall loan growth experienced in 2015. Total FHLB borrowings increased as advances, both short-term and long term, exceeded pay downs by \$6 million and was also utilized to fund earning asset growth. Late in December, the Company successfully completed a \$7.65 million subordinated debt issuance.

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The holding company had a total of \$30.4 million of cash, short-term investments, and investment securities at December 31, 2015. Additionally, dividend payments from our subsidiaries can also provide ongoing cash to the holding company. At December 31, 2015, our subsidiary Bank had \$3.5 million of cash available for immediate dividends to the holding company under applicable regulatory formulas. As such, the holding company has strong liquidity to meet its trust preferred debt service requirements, its subordinated debt interest payments, and its common stock dividends, which in total should approximate \$2.1 million over the next twelve months.

Financial institutions must maintain liquidity to meet day-to-day requirements of depositors and borrowers, take advantage of market opportunities, and provide a cushion against unforeseen needs. Liquidity needs can be met by either reducing assets or increasing liabilities. Sources of asset liquidity are provided by short-term investment securities, time deposits with banks, federal funds sold, and short-term investments in money market funds. These assets totaled \$45 million and \$33 million at December 31, 2015 and 2014, respectively. Maturing and repaying loans, as well as the monthly cash flow associated with mortgage-backed securities and security maturities are other significant sources of asset liquidity for the Company.

Liability liquidity can be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds, or utilizing the facilities of the Federal Reserve or the FHLB systems. The Company utilizes a variety of these methods of liability liquidity. Additionally, the Company's subsidiary bank is a member of the FHLB, which provides the opportunity to obtain short- to longer-term advances based upon the Company's investment in assets secured by one- to four-family residential real estate. At December 31, 2015, the Company had \$350 million of overnight borrowing availability at the FHLB, \$33 million of short-term borrowing availability at the Federal Reserve Bank and \$39 million of unsecured federal funds lines with correspondent banks. The Company believes it has ample liquidity available to fund outstanding loan commitments if they were fully drawn upon.

**CAPITAL RESOURCES...** The Company meaningfully exceeds all regulatory capital ratios for each of the periods presented and is considered well capitalized. The asset leverage ratio was 11.41% and the risk based capital ratio was 15.55% at December 31, 2015. We anticipate that we will maintain our strong capital ratios throughout 2016. Capital generated from earnings will be utilized to pay the common stock cash dividend and will also support anticipated balance sheet growth. Our common dividend payout ratio for the full year 2015 was 13.0%. Late in 2015, the Company issued \$7.65 million of subordinated debt which qualifies as Tier 2 capital for regulatory capital calculation purposes. This resulted in the holding company cash position being \$30.3 million at year end 2015. In the first quarter of 2016, we have used the net proceeds from the subordinated debt issuance along with a meaningful portion of holding company cash to redeem the SBLF preferred stock prior to the interest rate on the SBLF increasing from 1% to 9%. As a result of the SBLF redemption, we expect that holding company cash will be approximately \$10.0 million by the end of the first quarter of 2016 and then build as the year progresses.

On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. The final rules implement the Basel III regulatory capital reforms, as well as certain changes required by the Dodd-Frank Act. The July 2013 final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered well capitalized) and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered well capitalized); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered well capitalized). 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 comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements are effective on

January 1, 2015. The capital conservation buffer requirements phase in over a three-year period beginning January 1, 2016 at the 0.625% level. Implementation of the deductions and other adjustments to common equity tier 1 capital began on January 1, 2015 and will be phased-in over a three-year period (beginning at 40% on January 1, 2015, 60% on January 1, 2016 and an additional 20% per year thereafter).

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The Company's capital position will be more than adequate to meet the revised regulatory capital requirements.

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

The following table presents a summary of the Company's static GAP positions at December 31, 2015:

INTEREST SENSITIVITY PERIOD	3 MONTHS OR LESS	OVER 3 MONTHS THROUGH 6 MONTHS	OVER 6 MONTHS THROUGH 1 YEAR	OVER 1 YEAR	TOTAL
(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)					
<b>RATE SENSITIVE ASSETS:</b>					
Loans and loans held for sale	\$267,002	\$54,080	\$95,989	\$466,916	\$883,987
Investment securities	26,328	6,077	13,159	95,322	140,886
Short-term assets	25,067				25,067
Regulatory stock	4,628			2,125	6,753
Bank owned life insurance			37,228		37,228
Total rate sensitive assets	\$323,025	\$60,157	\$146,376	\$564,363	\$1,093,921
<b>RATE SENSITIVE LIABILITIES:</b>					
<b>Deposits:</b>					
Non-interest bearing deposits	\$	\$	\$	\$188,947	\$188,947
NOW	4,654			87,383	92,037
Money market	210,107			48,711	258,818
Other savings	23,487			70,462	93,949
Certificates of deposit of \$100,000 or more	6,868	12,588	8,832	3,134	31,422
Other time deposits	52,853	26,757	23,164	135,347	238,121
Total deposits	297,969	39,345	31,996	533,984	903,294
Borrowings	49,748		11,000	56,735	117,483
Total rate sensitive liabilities	\$347,717	\$39,345	\$42,996	\$590,719	\$1,020,777
<b>INTEREST SENSITIVITY GAP:</b>					
Interval	(24,692 )	20,812	103,380	(26,356 )	
Cumulative	\$(24,692 )	\$(3,880 )	\$99,500	\$73,144	\$73,144
Period GAP ratio	0.93X	1.53X	3.40X	0.96X	
Cumulative GAP ratio	0.93	0.99	1.23	1.07	
Ratio of cumulative GAP to total assets	(2.15 )%	(0.34 )%	8.66 %	6.37 %	

When December 31, 2015 is compared to December 31, 2014, the Company's cumulative GAP ratio through one year indicates that the Company's balance sheet is still asset sensitive with some improvement noted between years. We continue to see loan customer preference for fixed rate loans given the overall low level of interest rates. Also, we have extended some term advances with the FHLB to help manage our

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interest rate risk position. Overall, the absolute low level of short interest rates makes this table more difficult to analyze since there is little room for certain deposit liabilities to reprice downward further.

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

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

INTEREST RATE SCENARIO	VARIABILITY OF NET INTEREST INCOME	CHANGE IN MARKET VALUE OF PORTFOLIO EQUITY
200 bp increase	2.7 %	19.5 %
100 bp increase	1.4	11.4
100 bp decrease	(2.6 )	(14.3 )

The Company believes that its overall interest rate risk position is well controlled. The variability of net interest income is modestly positive in the upward rate shocks due to the Company's short duration investment securities portfolio and scheduled repricing of loans tied to LIBOR or prime. Also, the Company expects that it will not have to reprice its core deposit accounts up as quickly when interest rates rise. The variability of net interest income is negative in the 100 basis point downward rate scenario as the Company has more exposure to assets repricing downward to a greater extent than liabilities due to the absolute low level of interest rates with the fed funds rate currently at 0.25%. The market value of portfolio equity increases in the upward rate shocks due to the improved value of the Company's core deposit base. Negative variability of market value of portfolio equity occurs in the downward rate shock due to a reduced value for core deposits.

Within the investment portfolio at December 31, 2015, 85% of the portfolio is classified as available for sale and 15% as held to maturity. The available for sale classification provides management with greater flexibility to manage the securities portfolio to better achieve overall balance sheet rate sensitivity goals and provide liquidity if needed. The mark to market of the available for sale securities does inject more volatility in the book value of equity, but has no impact on regulatory capital. There are 64 securities that are temporarily impaired at December 31, 2015. The Company reviews its securities quarterly and has asserted that at December 31, 2015, the impaired value of securities represents temporary declines due to movements in interest rates and the Company does have the ability and intent to hold those securities to maturity or to allow a market recovery. Furthermore, it is the Company's intent to manage its long-term interest rate risk by continuing to sell newly originated fixed-rate 30-year mortgage loans into the secondary market (excluding construction and any jumbo loans). The Company also sells 15-year fixed-rate mortgage loans into the secondary market as well, depending on market conditions. For the year 2015, 82% of all residential mortgage loan production was sold into the secondary market.



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The amount of loans outstanding by category as of December 31, 2015, which are due in (i) one year or less, (ii) more than one year through five years, and (iii) over five years, are shown in the following table. Loan balances are also categorized according to their sensitivity to changes in interest rates.

	ONE YEAR OR LESS	MORE THAN ONE YEAR THROUGH FIVE YEARS	OVER FIVE YEARS	TOTAL LOANS
(IN THOUSANDS, EXCEPT RATIOS)				
Commercial	\$46,371	\$68,921	\$65,773	\$181,066
Commercial loans secured by real estate	43,502	128,271	249,865	421,637
Real estate-mortgage	22,384	59,343	179,213	260,940
Consumer	8,356	6,731	5,257	20,344
Total	\$120,613	\$263,266	\$500,108	\$883,987
Loans with fixed-rate	\$49,386	\$121,504	\$281,889	\$452,779
Loans with floating-rate	71,227	141,762	218,219	431,208
Total	\$120,613	\$263,266	\$500,108	\$883,987
Percent composition of maturity	13.6 %	29.8 %	56.6 %	100.0 %
Fixed-rate loans as a percentage of total loans				51.2 %
Floating-rate loans as a percentage of total loans				48.8 %

The loan maturity information is based upon original loan terms and is not adjusted for principal paydowns and rollovers. In the ordinary course of business, loans maturing within one year may be renewed, in whole or in part, as to principal amount at interest rates prevailing at the date of renewal.

**CONTRACTUAL OBLIGATIONS...** The following table presents, as of December 31, 2015, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

	NOTE REFERENCE	ONE YEAR OR LESS	ONE TO THREE YEARS	THREE TO FIVE YEARS	OVER FIVE YEARS	TOTAL
(IN THOUSANDS)						
Deposits without a stated maturity	8	\$633,751	\$	\$	\$	\$633,751
Certificates of deposit*	8	132,726	81,862	48,555	15,248	278,391
Borrowed funds*	10	61,015	24,914	13,026		98,955
Guaranteed junior subordinated deferrable interest debentures*	10				24,418	24,418
Subordinated debt*	10				12,623	12,623
Pension obligation	14	3,000				3,000
Lease commitments	15	716	862	457	1,739	3,774

\*



Includes interest based upon interest rates in effect at December 31, 2015. Future changes in market interest rates could materially affect contractual amounts to be paid.

**OFF BALANCE SHEET ARRANGEMENTS...** The Company incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company uses the same credit and collateral policies in making commitments and conditional

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obligations as for all other lending. The Company had various outstanding commitments to extend credit approximating \$170.5 million and standby letters of credit of \$7.5 million as of December 31, 2015. The Company can also use various interest rate contracts, such as interest rate swaps, caps, floors and swaptions to help manage interest rate and market valuation risk exposure, which is incurred in normal recurrent banking activities. The Company had no interest rate contracts outstanding as of December 31, 2015.

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

ACCOUNT    Allowance for loan losses

BALANCE SHEET REFERENCE    Allowance for loan losses

INCOME STATEMENT REFERENCE    Provision (credit) for loan losses

### DESCRIPTION

The allowance for loan losses is calculated with the objective of maintaining reserve levels believed by management to be sufficient to absorb estimated probable credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the credit portfolio and other relevant factors. However, this quarterly evaluation is inherently subjective as it requires material estimates, including, among others, likelihood of customer default, loss given default, exposure at default, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on consumer loans and residential mortgages, and general amounts for historical loss experience. This process also considers economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios. All of these factors may be susceptible to significant change. Also, the allocation of the allowance for credit losses to specific loan pools is based on historical loss trends and management's judgment concerning those trends.

Commercial and CRE loans are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the ALL. Approximately \$7.7 million, or 78%, of the total ALL at December 31, 2015 has been allocated to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, economic trends, delinquencies, levels of non-performing and Troubled Debt Restructured (TDR) loans, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions. To the extent actual outcomes differ from management estimates, additional provision for loan losses may be required that would adversely impact earnings in future periods.

ACCOUNT    Goodwill

BALANCE SHEET REFERENCE    Goodwill

INCOME STATEMENT REFERENCE    Goodwill impairment

### DESCRIPTION

The Company considers our accounting policies related to goodwill to be critical because the assumptions or judgment used in determining the fair value of assets and liabilities acquired in past acquisitions are subjective and complex. As a result, changes in these assumptions or judgment could have a significant impact on our financial condition or results of operations.

The fair value of acquired assets and liabilities, including the resulting goodwill, was based either on quoted market prices or provided by other third party sources, when available. When third party information was not available, estimates were made in good faith by management primarily through the use of internal cash flow modeling techniques. The assumptions that were used in the cash flow modeling were subjective and are susceptible to significant changes. The Company routinely utilizes the services of an independent third

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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.

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.

The Company recorded a \$669,000 impairment charge as a result of a goodwill impairment analysis performed in the third quarter of 2014. A qualitative assessment of WCCA indicated that it was more likely than not that the carrying value of WCCA exceeded its fair value. As such, the Company then performed the necessary two-step impairment test. In Step 1, we determined the carrying value of WCCA, including the goodwill, and compared it to the estimated fair value of WCCA. The results of Step 1 indicated that the carrying value of the goodwill exceeded the fair value so it was necessary to move to Step 2 where we measured the amount of the impairment loss. After performing Step 2, we determined that the implied value of the goodwill was less than its carrying costs which caused us to record an impairment charge of \$669,000 in the third quarter of 2014. Overall, the voluntary departure of WCCA's former CEO and the related litigation against him for violations of his employment agreement, caused disruption within the WCCA customer base during 2014. This disruption ultimately led to the loss of certain clients and a reduction in the projected earnings capacity of WCCA. These were the key facts and circumstances that led to the goodwill impairment charge in the third quarter of 2014. The Company utilized a discounted cash flow model along with a valuation technique based upon a multiple of revenues to estimate the fair value of WCCA. In 2015, WCCA returned to profitability and stabilized earnings, which reflected that no impairment charge was necessary.

ACCOUNT    Income Taxes

BALANCE SHEET REFERENCE    Net deferred tax asset

INCOME STATEMENT REFERENCE    Provision for income taxes

## DESCRIPTION

The provision for income taxes is the sum of income taxes both currently payable and deferred. The changes in deferred tax assets and liabilities are determined based upon the changes in differences between the basis of assets and liabilities for financial reporting purposes and the basis of assets and liabilities as measured by the enacted tax rates that management estimates will be in effect when the differences reverse. This income tax review is completed on a quarterly basis.

In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related timing of the expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make

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estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of December 31, 2015, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered and that no valuation allowances were needed.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

ACCOUNT    Investment Securities

BALANCE SHEET REFERENCE    Investment securities

INCOME STATEMENT REFERENCE    Net realized gains (losses) on investment securities

### DESCRIPTION

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operations. At December 31, 2015, 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 securities. The Company believes the unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

## **FORWARD LOOKING STATEMENTS...**

### THE STRATEGIC FOCUS:

The challenge for the future is to improve earnings performance to peer levels through a disciplined focus on community banking and improving the profitability of our Trust Company. In accordance with our strategic plan, the Company will maintain its focus as a community bank delivering banking and trust services to the best of our ability and focus on further growing revenues by leveraging our strong capital base and infrastructure. This Company will not succumb to the lure of quick fixes and fancy financial gimmicks. It is our plan to continue to build the Company into a potent banking force in this region and in this industry. Our focus encompasses the following:

**Customer Service**    It is the existing and prospective customer that the Company must satisfy. This means good products and fair prices. But it also means quick response time and professional competence. It means speedy

problem resolution and a minimizing of bureaucratic frustrations. The Company is training and motivating its staff to meet these standards while providing customers with more banking options that involve leading technologies such as computers, smartphones, and tablets to conduct business.

**Revenue Growth** It is necessary for the Company to focus on growing revenues. This means loan growth, deposit growth and fee growth. It also means close coordination between all customer service areas so as many revenue producing products as possible can be presented to existing and prospective customers. The Company's Strategic Plan contains action plans in each of these areas particularly on increasing loans through several loan production offices.

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focus on small business commercial lending. An examination of the peer bank database provides ample proof that a well-executed community banking business model can generate a reliable and rewarding revenue stream.

**Expense Rationalization** The Company remains focused on trying to reduce and rationalize expenses. This has not been a program of broad based cuts, but has been targeted so the Company stays strong but spends less. It is critical to be certain that future expenditures are directed to areas that are playing a positive role in the drive to improve revenues. Additionally, the Company incurred approximately \$150,000 of expenses related to a profitability improvement project in 2014. The Company engaged a consulting firm that specializes in the areas of expense rationalization and profit improvement for community banks. This firm completed a thorough analysis of our business operations and practices. As a result of this project, the firm provided the Company with recommendations to reduce expenses and improve future profitability. Many of their recommendations have been evaluated and already implemented and the Company presently believes that a minimum of \$1.4 million of annual savings from this project will be realized.

This Form 10-K contains various forward-looking statements and includes assumptions concerning the Company's beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, operations, future results, and prospects, including statements that include the words may, could, should, would, believe, expect, anticipate, intend, project, plan or similar expressions. These forward-looking statements are based upon current expectations, are subject to risk and uncertainties and are applicable only as of the dates of such statements. Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Form 10-K, even if subsequently made available on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Form 10-K. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary statement identifying important factors (some of which are beyond the Company's control) which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

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

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



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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Risk identification and management are essential elements for the successful management of the Company. In the normal course of business, the Company is subject to various types of risk, including interest rate, credit, and liquidity risk. The Company controls and monitors these risks with policies, procedures, and various levels of managerial and Board oversight. The Company's objective is to optimize profitability while managing and controlling risk within Board approved policy limits.

Interest rate risk is the sensitivity of net interest income and the market value of financial instruments to the magnitude, direction, and frequency of changes in interest rates. Interest rate risk results from various repricing frequencies and the maturity structure of assets, liabilities, and hedges. The Company uses its asset liability management policy and hedging policy to control and manage interest rate risk. For information regarding the effect of changing interest rates on the Company's net interest income and market value of its investment portfolio, see Management's Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Sensitivity.

Liquidity risk represents the inability to generate cash or otherwise obtain funds at reasonable rates to satisfy commitments to borrowers, as well as, the obligations to depositors, debtholders and to fund operating expenses. The Company uses its asset liability management policy and contingency funding plan to control and manage liquidity risk. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity.

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

For information regarding the market risk of the Company's financial instruments, see Management's Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Sensitivity. The Company's principal market risk exposure is to interest rates.

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## ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

# AMERISERV FINANCIAL, INC.

## CONSOLIDATED BALANCE SHEETS

	AT DECEMBER 31, 2015                  2014 (IN THOUSANDS, EXCEPT SHARE DATA)	
ASSETS		
Cash and due from depository institutions	\$23,443	\$23,780
Interest bearing deposits	6,960	2,952
Short-term investments in money market funds	18,107	6,140
Cash and cash equivalents	48,510	32,872
Investment securities:		
Available for sale	119,467	127,110
Held to maturity (fair value \$21,533 at December 31, 2015 and \$20,213 at December 31, 2014)	21,419	19,840
Loans held for sale	3,003	5,051
Loans	881,541	827,634
Less: Unearned income	557	554
Allowance for loan losses	9,921	9,623
Net loans	871,063	817,457
Premises and equipment, net	12,108	13,012
Accrued interest income receivable	3,057	3,127
Goodwill	11,944	11,944
Bank owned life insurance	37,228	37,417
Net deferred tax asset	8,993	9,548
Federal Home Loan Bank stock	4,628	4,048
Federal Reserve Bank stock	2,125	2,125
Other assets	5,377	5,712
TOTAL ASSETS	\$1,148,922	\$1,089,263
LIABILITIES		
Non-interest bearing deposits	\$188,947	\$167,551
Interest bearing deposits	714,347	702,330
Total deposits	903,294	869,881
Short-term borrowings	48,748	38,880
Advances from Federal Home Loan Bank	48,000	42,000
Guaranteed junior subordinated deferrable interest debentures	13,085	13,085
Subordinated debt	7,650	
Total borrowed funds	117,483	93,965
Other liabilities	9,172	11,010
TOTAL LIABILITIES	1,029,949	974,856
STOCKHOLDERS' EQUITY		

Preferred stock, no par value; \$1,000 per share liquidation preference; 2,000,000 shares authorized; there were 21,000 shares issued and outstanding on December 31, 2015 and 2014	<b>21,000</b>	21,000
Common stock, par value \$0.01 per share; 30,000,000 shares authorized: 26,488,630 shares issued and 18,870,811 shares outstanding on December 31, 2015; 26,412,707 shares issued and 18,794,888 shares outstanding on December 31, 2014	<b>265</b>	264
Treasury stock at cost, 7,617,819 shares on December 31, 2015 and 2014	<b>(74,829 )</b>	(74,829 )
Capital surplus	<b>145,441</b>	145,256
Retained earnings	<b>34,651</b>	29,618
Accumulated other comprehensive loss, net	<b>(7,555 )</b>	(6,902 )
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>118,973</b>	114,407
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$1,148,922</b>	\$1,089,263

See accompanying notes to consolidated financial statements.

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# AMERISERV FINANCIAL, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
INTEREST INCOME			
Interest and fees on loans:			
Taxable	\$ 37,923	\$ 36,285	\$ 35,063
Tax exempt	72	57	57
Interest bearing deposits	8	5	6
Short-term investments in money market funds	14	7	8
Investment securities:			
Available for sale	3,250	3,528	3,701
Held to maturity	614	559	508
Total Interest Income	41,881	40,441	39,343
INTEREST EXPENSE			
Deposits	4,752	4,889	5,164
Short-term borrowings	86	55	46
Advances from Federal Home Loan Bank	558	333	152
Guaranteed junior subordinated deferrable interest debentures	1,120	1,120	1,120
Subordinated debt	4		
Total Interest Expense	6,520	6,397	6,482
Net Interest Income	35,361	34,044	32,861
Provision (credit) for loan losses	1,250	375	(1,100 )
Net Interest Income after Provision (credit) for Loan Losses	34,111	33,669	33,961
NON-INTEREST INCOME			
Trust and investment advisory fees	8,344	7,765	7,812
Service charges on deposit accounts	1,750	1,957	2,173
Net gains on loans held for sale	767	748	1,089
Mortgage related fees	391	590	773
Net realized gains on investment securities	71	177	204
Bank owned life insurance	1,617	748	998
Other income	2,327	2,338	2,695
Total Non-Interest Income	15,267	14,323	15,744
NON-INTEREST EXPENSE			
Salaries and employee benefits	24,042	24,960	25,115
Net occupancy expense	2,941	2,964	2,937
Equipment expense	1,773	1,892	1,851
Professional fees	5,003	5,409	4,327
Supplies, postage, and freight	726	761	810
Miscellaneous taxes and insurance	1,157	1,174	1,467
Federal deposit insurance expense	669	636	611

Goodwill impairment charge		669	
Other expense	<b>4,727</b>	4,906	5,105
Total Non-Interest Expense	<b>41,038</b>	43,371	42,223

See accompanying notes to consolidated financial statements.

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**AMERISERV FINANCIAL, INC.**  
**CONSOLIDATED STATEMENTS OF**  
**OPERATIONS (continued)**

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
PRETAX INCOME	<b>8,340</b>	4,621	7,482
Provision for income taxes	<b>2,343</b>	1,598	2,289
NET INCOME	<b>5,997</b>	3,023	5,193
Preferred stock dividends	<b>210</b>	210	209
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	<b>\$ 5,787</b>	\$ 2,813	\$ 4,984
PER COMMON SHARE DATA:			
Basic:			
Net income	<b>\$ 0.31</b>	\$ 0.15	\$ 0.26
Average number of shares outstanding	<b>18,863</b>	18,793	18,942
Diluted:			
Net income	<b>\$ 0.31</b>	\$ 0.15	\$ 0.26
Average number of shares outstanding	<b>18,933</b>	18,908	19,034
Cash dividends declared	<b>\$ 0.04</b>	\$ 0.04	\$ 0.03

See accompanying notes to consolidated financial statements.

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# AMERISERV FINANCIAL, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS)		
COMPREHENSIVE INCOME			
Net income	<b>\$5,997</b>	\$3,023	\$5,193
Other comprehensive loss, before tax:			
Pension obligation change for defined benefit plan	<b>579</b>	(2,769)	3,942
Income tax effect	<b>(197 )</b>	942	(1,340 )
Unrealized holding gains (losses) on available for sale securities arising during period	<b>(1,498)</b>	1,391	(4,489 )
Income tax effect	<b>509</b>	(474 )	1,526
Reclassification adjustment for net realized gains on available for sale securities included in net income	<b>(71 )</b>	(177 )	(204 )
Income tax effect	<b>25</b>	60	69
Other comprehensive loss	<b>(653 )</b>	(1,027)	(496 )
Comprehensive income	<b>\$5,344</b>	\$1,996	\$4,697

See accompanying notes to consolidated financial statements.

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# AMERISERV FINANCIAL, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS)		
<b>PREFERRED STOCK</b>			
Balance at beginning of period	<b>\$21,000</b>	\$21,000	\$21,000
Balance at end of period	<b>21,000</b>	21,000	21,000
<b>COMMON STOCK</b>			
Balance at beginning of period	<b>264</b>	264	264
New common shares issued for dividend reinvestment and stock purchase plan	<b>1</b>		
Balance at end of period	<b>265</b>	264	264
<b>TREASURY STOCK</b>			
Balance at beginning of period	<b>(74,829 )</b>	(74,829 )	(73,658 )
Treasury stock, purchased at cost (384,000 shares in 2013)			(1,171 )
Balance at end of period	<b>(74,829 )</b>	(74,829 )	(74,829 )
<b>CAPITAL SURPLUS</b>			
Balance at beginning of period	<b>145,256</b>	145,190	145,102
New common shares issued for exercise of stock options	<b>156</b>	24	6
Stock option expense	<b>29</b>	42	82
Balance at end of period	<b>145,441</b>	145,256	145,190
<b>RETAINED EARNINGS</b>			
Balance at beginning of period	<b>29,618</b>	27,557	23,139
Net income	<b>5,997</b>	3,023	5,193
Cash dividend declared on common stock	<b>(754 )</b>	(752 )	(566 )
Cash dividend declared on preferred stock	<b>(210 )</b>	(210 )	(209 )
Balance at end of period	<b>34,651</b>	29,618	27,557
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS, NET</b>			
Balance at beginning of period	<b>(6,902 )</b>	(5,875 )	(5,379 )
Other comprehensive loss	<b>(653 )</b>	(1,027 )	(496 )
Balance at end of period	<b>(7,555 )</b>	(6,902 )	(5,875 )
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>\$118,973</b>	\$114,407	\$113,307

See accompanying notes to consolidated financial statements.



TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS)		
<b>OPERATING ACTIVITIES</b>			
Net income	<b>\$5,997</b>	\$3,023	\$5,193
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (credit) for loan losses	<b>1,250</b>	375	(1,100 )
Depreciation and amortization expense	<b>1,790</b>	1,836	1,683
Net amortization of investment securities	<b>342</b>	385	755
Net realized gains on investment securities available for sale	<b>(71 )</b>	(177 )	(204 )
Net gains on loans held for sale	<b>(767 )</b>	(748 )	(1,089 )
Amortization of deferred loan fees	<b>(249 )</b>	(262 )	(304 )
Origination of mortgage loans held for sale	<b>(51,759 )</b>	(51,481 )	(60,826 )
Sales of mortgage loans held for sale	<b>54,574</b>	50,580	69,089
Decrease (increase) in accrued interest receivable	<b>70</b>	(219 )	52
Decrease in accrued interest payable	<b>(55 )</b>	(78 )	(299 )
Earnings on bank-owned life insurance	<b>(690 )</b>	(748 )	(811 )
Deferred income taxes	<b>888</b>	562	2,150
Stock compensation expense	<b>186</b>	66	88
Goodwill impairment charge		669	
Decrease in prepaid Federal Deposit Insurance			1,444
Other, net	<b>(1,674 )</b>	1,179	(967 )
Net cash provided by operating activities	<b>9,832</b>	4,962	14,854
<b>INVESTING ACTIVITIES</b>			
Purchase of investment securities available for sale	<b>(22,241 )</b>	(12,218 )	(50,125 )
Purchase of investment securities held to maturity	<b>(6,237 )</b>	(3,093 )	(8,942 )
Proceeds from maturities of investment securities available for sale	<b>24,532</b>	22,900	43,307
Proceeds from maturities of investment securities held to maturity	<b>4,601</b>	1,390	4,425
Proceeds from sales of investment securities available for sale	<b>3,570</b>	5,242	11,185
Purchase of regulatory stock	<b>(19,320 )</b>	(9,817 )	(5,865 )
Proceeds from redemption of regulatory stock	<b>18,740</b>	10,446	5,367
Long-term loans originated	<b>(246,304)</b>	(177,351)	(205,549)
Principal collected on long-term loans	<b>183,380</b>	130,476	146,720
Participations purchased	<b>(15,019 )</b>	(5,347 )	(12,990 )
Participations sold	<b>23,774</b>	10,810	8,500
Net increase in other short-term loans	<b>(627 )</b>	(3,558 )	(679 )
Purchases of premises and equipment	<b>(881 )</b>	(1,720 )	(3,004 )
Proceeds from sale of other real estate owned	<b>579</b>	946	993
Proceeds from life insurance policies	<b>1,598</b>		356

Net cash used in investing activities	(49,855 )	(30,894 )	(66,301 )
FINANCING ACTIVITIES			
Net increase in deposit balances	33,339	15,375	18,744
Net increase (decrease) in other short-term borrowings	9,868	(2,675 )	25,895
Principal borrowings on advances from Federal Home Loan Bank	10,000	17,000	18,000
Principal repayments on advances from Federal Home Loan Bank	(4,000 )		(6,000 )
Subordinated debt issuance, net	7,418		
Preferred stock dividend paid	(210 )	(210 )	(209 )
Common stock dividend paid	(754 )	(752 )	(566 )
Purchase of treasury stock			(1,171 )
Net cash provided by financing activities	55,661	28,738	54,693
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,638	2,806	3,246
CASH AND CASH EQUIVALENTS AT JANUARY 1	32,872	30,066	26,820
CASH AND CASH EQUIVALENTS AT DECEMBER 31	\$48,510	\$32,872	\$30,066

See accompanying notes to consolidated financial statements.

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**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BUSINESS AND NATURE OF OPERATIONS:**

AmeriServ Financial, Inc. (the Company) is a bank holding company, headquartered in Johnstown, Pennsylvania. Through its banking subsidiary the Company operates 17 banking locations in five southwestern Pennsylvania counties. These branches provide a full range of consumer, mortgage, and commercial financial products. The AmeriServ Trust and Financial Services Company (Trust Company) offers a complete range of trust and financial services and administers assets valued at approximately \$2.0 billion that are not recognized on the Company's Consolidated Balance Sheet at December 31, 2015.

**PRINCIPLES OF CONSOLIDATION:**

The consolidated financial statements include the accounts of AmeriServ Financial, Inc. and its wholly-owned subsidiaries, AmeriServ Financial Bank (the Bank), Trust Company, and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 17 locations in Pennsylvania. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

Intercompany accounts and transactions have been eliminated in preparing the Consolidated Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles, or GAAP) requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes.

Actual results may differ from these estimates and the differences may be material to the Consolidated Financial Statements. The Company's most significant estimates relate to the allowance for loan losses, goodwill, income taxes, investment securities, pension, and the fair value of financial instruments.

**INVESTMENT SECURITIES:**

Securities are classified at the time of purchase as investment securities held to maturity if it is management's intent and the Company has the ability to hold the securities until maturity. These held to maturity securities are carried on the Company's books at cost, adjusted for amortization of premium and accretion of discount which is computed using the level yield method which approximates the effective interest method. Alternatively, securities are classified as available for sale if it is management's intent at the time of purchase to hold the securities for an indefinite period of time and/or to use the securities as part of the Company's asset/liability management strategy. Securities classified as available for sale include securities which may be sold to effectively manage interest rate risk exposure, prepayment risk, and other factors (such as liquidity requirements). These available for sale securities are reported at fair value with unrealized aggregate appreciation/depreciation excluded from income and credited/charged to accumulated other comprehensive income/loss within stockholders' equity on a net of tax basis. Any securities classified as trading assets are reported at fair value with unrealized aggregate appreciation/depreciation included in income on a net of tax basis.

The Company does not engage in trading activity.

Realized gains or losses on securities sold are computed upon the adjusted cost of the specific securities sold.

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery. The Company believes the unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal

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**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

**FEDERAL HOME LOAN BANK STOCK:**

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) and as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its \$100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) The significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time any such situation has persisted (b) Commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) The impact of legislative and regulatory changes on the customer base of FHLB and (d) The liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

**LOANS:**

Interest income is recognized using the level yield method related to principal amounts outstanding. The Company discontinues the accrual of interest income when loans become 90 days past due in either principal or interest. In addition, if circumstances warrant, the accrual of interest may be discontinued prior to 90 days. Payments received on non-accrual loans are credited to principal until full recovery of principal has been recognized; or the loan has been returned to accrual status. The only exception to this policy is for residential mortgage loans wherein interest income is recognized on a cash basis as payments are received. A non-accrual commercial loan is placed on accrual status after becoming current and remaining current for twelve consecutive payments. Residential mortgage loans are placed on accrual status upon becoming current.

**LOAN FEES:**

Loan origination and commitment fees, net of associated direct costs, are deferred and amortized into interest and fees on loans over the loan or commitment period. Fee amortization is determined by the effective interest method.

**LOANS HELD FOR SALE:**

Certain newly originated fixed-rate residential mortgage loans are classified as held for sale, because it is management's intent to sell these residential mortgage loans. The residential mortgage loans held for sale are carried at the lower of aggregate cost or market value.

**TRANSFERS OF FINANCIAL ASSETS:**

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

**PREMISES AND EQUIPMENT:**

Premises and equipment are stated at cost less accumulated depreciation and amortization. Land is carried at cost.

Depreciation is charged to operations over the estimated useful lives of the premises and equipment using the straight-line method with a half-year convention. Useful lives of up to 30 years for buildings and up to 10 years for equipment are utilized. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases or useful lives of the improvements, whichever is shorter. Maintenance, repairs, and minor alterations are charged to current operations as expenditures are incurred.

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**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

**ALLOWANCE FOR LOAN LOSSES AND CHARGE-OFF PROCEDURES:**

As a financial institution, which assumes lending and credit risks as a principal element of its business, the Company anticipates that credit losses will be experienced in the normal course of business. Accordingly, the Company consistently applies a comprehensive methodology and procedural discipline to perform an analysis which is updated on a quarterly basis at the Bank level to determine both the adequacy of the allowance for loan losses and the necessary provision for loan losses to be charged against earnings. This methodology includes:

Review of all criticized, classified and impaired loans with aggregate balances over \$250,000 to determine if any specific reserve allocations are required on an individual loan basis. All required specific reserve allocations are based on careful analysis of the loan's performance, the related collateral value, cash flow considerations and the financial capability of any guarantor. All loans classified as doubtful or worse are specifically reserved. For impaired loans the measurement of impairment may be based upon: 1) the present value of expected future cash flows discounted at the loan's effective interest rate; 2) the observable market price of the impaired loan; or 3) the fair value of the collateral of a collateral dependent loan.

The application of formula driven reserve allocations for all commercial and commercial real-estate loans by using a three-year migration analysis of net losses incurred within each risk grade for the entire commercial loan portfolio. The difference between estimated and actual losses is reconciled through the nature of the migration analysis. The application of formula driven reserve allocations to consumer and residential mortgage loans which are based upon historical net charge-off experience for those loan types. The residential mortgage loan and consumer loan allocations are based upon the Company's three-year historical average of actual loan net charge-offs experienced in each of those categories.

The application of formula driven reserve allocations to all outstanding loans is based upon review of historical losses and qualitative factors, which include but are not limited to, economic trends, delinquencies, levels of non-accrual and TDR loans, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions.

Management recognizes that there may be events or economic factors that have occurred affecting specific borrowers or segments of borrowers that may not yet be fully reflected in the information that the Company uses for arriving at reserves for a specific loan or portfolio segment. Therefore, the Company believes that there is estimation risk associated with the use of specific and formula driven allowances.

After completion of this process, a formal meeting of the Loan Loss Reserve Committee is held to evaluate the adequacy of the reserve.

When it is determined that the prospects for recovery of the principal of a loan have significantly diminished, the loan is charged against the allowance account; subsequent recoveries, if any, are credited to the allowance account. In addition, non-accrual and large delinquent loans are reviewed monthly to determine potential losses.

The Company's policy is to individually review, as circumstances warrant, its commercial and commercial mortgage loans to determine if a loan is impaired. At a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of \$250,000 within a 12-month period. The Company defines classified loans as those loans rated substandard or doubtful. The Company has also identified three pools of small dollar value homogeneous loans which are evaluated collectively for impairment. These separate pools are for small business relationships with aggregate balances



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**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

of \$250,000 or less, residential mortgage loans and consumer loans. Individual loans within these pools are reviewed and evaluated for specific impairment if factors such as significant delinquency in payments of 90 days or more, bankruptcy, or other negative economic concerns indicate impairment.

**ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT:**

The allowance for unfunded loan commitments and letters of credit is maintained at a level believed by management to be sufficient to absorb estimated losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers and the terms and expiration dates of the unfunded credit facilities. Net adjustments to the allowance for unfunded loan commitments and letters of credit are provided for in the unfunded commitment reserve expense line item within other expense in the Consolidated Statements of Operations and a separate reserve is recorded within the other liabilities section of the Consolidated Balance Sheets.

**TRUST FEES:**

Trust fees are recorded on the cash basis which approximates the accrual basis for such income.

**BANK-OWNED LIFE INSURANCE:**

The Company has purchased life insurance policies on certain employees. These policies are recorded on the Consolidated Balance Sheets at their cash surrender value, or the amount that can be realized. Income from these policies and changes in the cash surrender value are recorded in bank owned life insurance within non-interest income.

**INTANGIBLE ASSETS:**

**Goodwill**

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. The Company accounts for goodwill using a two-step process for testing the impairment of goodwill on at least an annual basis. This approach could cause more volatility in the Company's reported net income because impairment losses, if any, could occur irregularly and in varying amounts. The Company performs an impairment analysis of goodwill at least annually.

**EARNINGS PER COMMON SHARE:**

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are treated as retired for earnings per share purposes. Options to purchase 58,788, 3,625, and 103,570 shares of common stock were outstanding during 2015, 2014 and 2013, respectively, but were not included in the computation of diluted earnings per common share because to do so would be anti-dilutive. Exercise prices of anti-dilutive options to purchase common stock outstanding were \$3.23 \$4.70, \$4.60 \$5.22, and \$3.05 \$5.75 during 2015, 2014 and 2013, respectively. Dividends on preferred shares are deducted from net income in the calculation of earnings per common share.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Numerator:			
Net income	\$ 5,997	\$ 3,023	\$ 5,193
Preferred stock dividends	210	210	209
Net income available to common shareholders	\$ 5,787	\$ 2,813	\$ 4,984
Denominator:			
Weighted average common shares outstanding (basic)	18,863	18,793	18,942
Effect of stock options	70	115	92
Weighted average common shares outstanding (diluted)	18,933	18,908	19,034
Earnings per common share:			
Basic	\$ 0.31	\$ 0.15	\$ 0.26
Diluted	0.31	0.15	0.26

**STOCK-BASED COMPENSATION:**

The Company uses the modified prospective method for accounting of stock-based compensation. The Company recognized \$29,000, \$42,000 and \$82,000 of pretax compensation expense for the years 2015, 2014 and 2013. The fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model. See Note 18 for details on the assumptions used.

**ACCUMULATED OTHER COMPREHENSIVE LOSS:**

The Company presents the components of other comprehensive income (loss) in the Consolidated Statements of Comprehensive Income. These components are comprised of the change in the defined benefit pension obligation and the unrealized holding gains (losses) on available for sale securities, net of any reclassification adjustments for realized gains and losses.

**CONSOLIDATED STATEMENT OF CASH FLOWS:**

On a consolidated basis, cash and cash equivalents include cash and due from depository institutions, interest bearing deposits, and short-term investments in money market funds. The Company made \$1,554,000 in income tax payments in 2015; \$1,063,000 in 2014; and \$137,000 in 2013. The Company had non-cash transfers to other real estate owned (OREO) in the amounts of \$189,000 in 2015; \$660,000 in 2014; and \$766,000 in 2013. The Company made total interest payments of \$6,575,000 in 2015; \$6,475,000 in 2014; and \$6,781,000 in 2013.

**INCOME TAXES:**

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

**INTEREST RATE CONTRACTS:**

The Company recognizes all derivatives as either assets or liabilities on the Consolidated Balance Sheets and measures those instruments at fair value. For derivatives designated as fair value hedges, changes in the fair value of the derivative and hedged item related to the hedged risk are recognized in earnings. Changes in fair value of derivatives designated and accounted as cash flow hedges, to the extent they are effective as hedges, are recorded in Other Comprehensive Income, net of deferred taxes and are subsequently

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**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

reclassified to earnings when the hedged transaction affects earnings. Any hedge ineffectiveness would be recognized in the income statement line item pertaining to the hedged item.

The Company periodically enters into derivative instruments to meet the financing, interest rate and equity risk management needs of its customers. Upon entering into these instruments to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These derivative financial instruments are reported at fair value with any resulting gain or loss recorded in current period earnings. These instruments and their offsetting positions are recorded in other assets and other liabilities on the Consolidated Balance Sheets.

**PENSION:**

Pension costs and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest costs, expected return on plan assets, mortality rates, and other factors. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation of future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Company's pension obligations and future expense. Our pension benefits are described further in Note 14 of the Notes to Consolidated Financial Statements.

**FAIR VALUE OF FINANCIAL INSTRUMENTS:**

We group our assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level I Valuation is based upon quoted prices for identical instruments traded in active markets.

Level II Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level III Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset.

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the

fair value hierarchy in generally accepted accounting principles.

Fair value measurements for most of our assets are obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade,

bid, and other market information. Subsequently, all of our financial instruments use either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. In certain cases, however, when market observable inputs for model-based valuation techniques may not be readily available, we are required to make judgments about assumptions market participants would use in estimating the fair value of financial instruments.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. When market data is not available, we use valuation techniques requiring

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**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

more management judgment to estimate the appropriate fair value measurement. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations.

**RECENT ACCOUNTING STANDARDS:**

In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30)*, as part of its initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. This Update is not expected to have a significant impact on the Company's financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

**2. CASH AND DUE FROM DEPOSITORY INSTITUTIONS**

Included in Cash and due from depository institutions are required federal reserves of \$2,000 for both December 31, 2015 and 2014, respectively, for facilitating the implementation of monetary policy by the Federal Reserve System. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These are held in the form of vault cash and a depository amount held with the Federal Reserve Bank.

### 3. INVESTMENT SECURITIES

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

Investment securities available for sale:

	AT DECEMBER 31, 2015			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency	\$2,900	\$	\$ (19 )	\$2,881
Corporate bonds	18,541	18	(307 )	18,252
U.S. Agency mortgage-backed securities	96,801	1,975	(442 )	98,334
Total	\$118,242	\$ 1,993	\$ (768 )	\$119,467

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Investment securities held to maturity:

	AT DECEMBER 31, 2015			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency mortgage-backed securities	\$ 10,827	\$ 247	\$ (53 )	\$ 11,021
Taxable municipal	5,592	67	(65 )	5,594
Corporate bonds and other securities	5,000	3	(85 )	4,918
Total	\$ 21,419	\$ 317	\$ (203 )	\$ 21,533

Investment securities available for sale:

	AT DECEMBER 31, 2014			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency	\$ 5,931	\$ 21	\$ (46 )	\$ 5,906
Corporate bonds	15,497	61	(122 )	15,436
U.S. Agency mortgage-backed securities	102,888	3,197	(317 )	105,768
Total	\$ 124,316	\$ 3,279	\$ (485 )	\$ 127,110

Investment securities held to maturity:

	AT DECEMBER 31, 2014			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency mortgage-backed securities	\$ 12,481	\$ 395	\$ (50 )	\$ 12,826
Taxable municipal	3,364	74	(24 )	3,414
Corporate bonds and other securities	3,995	6	(28 )	3,973
Total	\$ 19,840	\$ 475	\$ (102 )	\$ 20,213

Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investors Service or Standard & Poor's rating of A. At December 31, 2015, 79.1% of the portfolio was rated AAA as compared to 84.1% at December

31, 2014. 5.7% of the portfolio was rated below A or unrated on December 31, 2015. The Company and its subsidiaries, collectively, did not hold securities of any single issuer, excluding U.S. Treasury and U.S. Agencies, that exceeded 10% of shareholders' equity at December 31, 2015.

The book value of securities, both available for sale and held to maturity, pledged to secure public and trust deposits, and certain Federal Home Loan Bank borrowings was \$87,096,000 at December 31, 2015 and \$104,780,000 at December 31, 2014.

The Company realized \$107,000 of gross investment security gains and \$36,000 of gross investment security losses in 2015 and \$182,000 of gross investment security gains and \$5,000 of investment security losses in 2014, and \$289,000 of gross investment gains and \$85,000 of gross investment security losses in 2013. On a net basis, the realized gain for 2015 was \$47,000 after factoring in tax expense of \$24,000 and the realized gain for 2014 was \$117,000 after factoring in tax expense of \$60,000, and the realized gain for 2013

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****3. INVESTMENT SECURITIES (continued)**

was \$135,000 after factoring in tax expense of \$69,000. Proceeds from sales of investment securities available for sale were \$3.6 million for 2015, \$5.2 million for 2014, and \$11.2 million during 2013.

The following table sets forth the contractual maturity distribution of the investment securities, cost basis and fair market values, and the weighted average yield for each type and range of maturity as of December 31, 2015. Yields are not presented on a tax-equivalent basis, but are based upon the cost basis and are weighted for the scheduled maturity. The Company's consolidated investment securities portfolio had an effective duration of approximately 2.85 years. The weighted average expected maturity for available for sale securities at December 31, 2015 for U.S. Agency, U.S. Agency Mortgage-Backed and Corporate Bond securities was 2.34, 4.43 and 4.47 years, respectively. The weighted average expected maturity for held to maturity securities at December 31, 2015 for U.S. Agency Mortgage-Backed and Corporate Bonds/Taxable Municipals and other securities were 5.33 and 6.02 years.

Investment securities available for sale:

AT DECEMBER 31, 2015							
	U.S. AGENCY		U.S. AGENCY MORTGAGE-BACKED SECURITIES		CORPORATE BONDS		TOTAL INVESTMENT SECURITIES AVAILABLE FOR SALE
(IN THOUSANDS, EXCEPT YIELDS)							
COST BASIS							
Within 1 year	\$	%	\$	%	\$1,000	2.31 %	\$1,000 2.31 %
After 1 year but within 5 years	2,400	1.27	1,206	4.39	8,000	1.82	11,606 1.98
After 5 years but within 10 years	500	1.97	16,807	3.01	9,541	2.64	26,848 2.86
After 10 years but within15 years			41,448	2.45			41,448 2.45
Over 15 years			37,340	2.37			37,340 2.37
Total	\$2,900	1.39	\$ 96,801	2.54	\$18,541	2.27	\$118,242 2.47
FAIR VALUE							
Within 1 year	\$		\$		\$999		\$999
After 1 year but within 5 years	2,385		1,253		7,977		11,615
After 5 years but within 10 years	496		17,351		9,276		27,123
			41,834				41,834

After 10 years but within  
15 years

Over 15 years

Total

	<b>37,896</b>	<b>37,896</b>
<b>\$2,881</b>	<b>\$ 98,334</b>	<b>\$18,252</b>
		<b>\$119,467</b>

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Investment securities held to maturity:

	AT DECEMBER 31, 2015				TOTAL INVESTMENT SECURITIES HELD TO MATURITY	
	U.S. AGENCY MORTGAGE-BACKED SECURITIES		CORPORATE BONDS AND OTHER			
	(IN THOUSANDS, EXCEPT YIELDS)					
<b>COST BASIS</b>						
Within 1 year	\$	%	\$ 1,000	1.67 %	\$ 1,000	1.67 %
After 1 year but within 5 years			2,000	1.78	2,000	1.78
After 5 years but within 10 years	2,898	2.40	4,719	4.05	7,617	3.42
After 10 years but within 15 years			2,115	3.85	2,115	3.85
Over 15 years	7,929	3.30	758	4.97	8,687	3.45
Total	\$ 10,827	3.06	\$ 10,592	3.42	\$ 21,419	3.24
<b>FAIR VALUE</b>						
Within 1 year	\$		\$ 995		\$ 995	
After 1 year but within 5 years			1,930		1,930	
After 5 years but within 10 years	2,857		4,710		7,567	
After 10 years but within 15 years			2,081		2,081	
Over 15 years	8,164		796		8,960	
Total	\$ 11,021		\$ 10,512		\$ 21,533	

The following tables present information concerning investments with unrealized losses as of December 31, 2015 (in thousands):

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
Total investment securities:	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Agency	\$ 1,486	\$ (14 )	\$ 395	\$ (5)	\$ 1,881	\$ (19 )
U.S. Agency mortgage-backed securities	33,359	(245 )	9,088	(250 )	42,447	(495 )
Taxable municipal	3,617	(65 )			3,617	(65 )
Corporate bonds and other securities	8,884	(160 )	7,766	(232 )	16,650	(392 )
Total	\$ 47,346	\$ (484 )	\$ 17,249	\$ (487 )	\$ 64,595	\$ (971 )

The following tables present information concerning investments with unrealized losses as of December 31, 2014 (in thousands):

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Total investment securities:						
U.S. Agency	\$996	\$ (4 )	\$2,858	\$ (42 )	\$3,854	\$ (46 )
U.S. Agency mortgage-backed securities	2,826	(13 )	20,408	(354 )	23,234	(367 )
Taxable municipal	150	(1 )	988	(23 )	1,138	(24 )
Corporate bonds and other securities	2,960	(43 )	8,891	(107 )	11,851	(150 )
Total	\$6,932	\$ (61 )	\$33,145	\$ (526 )	\$40,077	\$ (587 )

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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 64 positions that are considered temporarily impaired at December 31, 2015. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value or mature.

**4. LOANS**

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,	
	2015	2014
	(IN THOUSANDS)	
Commercial	<b>\$ 181,066</b>	\$ 139,126
Commercial loans secured by real estate	<b>421,637</b>	410,329
Real estate-mortgage	<b>257,937</b>	258,616
Consumer	<b>20,344</b>	19,009
Loans, net of unearned income	<b>\$ 880,984</b>	\$ 827,080

Loan balances at December 31, 2015 and 2014 are net of unearned income of \$557,000 and \$554,000, respectively. Real estate construction loans comprised 3.0% and 3.5% of total loans net of unearned income at December 31, 2015 and 2014, respectively. The Company has no exposure to subprime mortgage loans in either the loan or investment portfolios. The Company has no direct loan exposure to foreign countries. Additionally, the Company has no significant industry lending concentrations. As of December 31, 2015 and 2014, loans to customers engaged in similar activities and having similar economic characteristics, as defined by standard industrial classifications, did not exceed 10% of total loans. Additionally, the majority of the Company's lending occurs within a 250 mile radius of the Johnstown market.

In the ordinary course of business, the subsidiaries have transactions, including loans, with their officers, directors, and their affiliated companies. In management's opinion, these transactions were on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated parties and do not involve more than the normal credit risk. These loans totaled \$846,000 and \$847,000 at December 31, 2015 and 2014, respectively.

## 5. ALLOWANCE FOR LOAN LOSSES

The following table summarizes the rollforward of the allowance for loan losses by portfolio segment (in thousands).

	BALANCE AT DECEMBER 31, 2014	CHARGE- OFFS	RECOVERIES	PROVISION (CREDIT)	BALANCE AT DECEMBER 31, 2015
Commercial	<b>\$ 3,262</b>	<b>\$ (170 )</b>	<b>\$ 101</b>	<b>\$ 1,051</b>	<b>\$ 4,244</b>
Commercial loans secured by real estate	<b>3,902</b>	<b>(250 )</b>	<b>111</b>	<b>(314 )</b>	<b>3,449</b>
Real estate-mortgage	<b>1,310</b>	<b>(753 )</b>	<b>171</b>	<b>445</b>	<b>1,173</b>
Consumer	<b>190</b>	<b>(188 )</b>	<b>26</b>	<b>123</b>	<b>151</b>
Allocation for general risk	<b>959</b>			<b>(55 )</b>	<b>904</b>
Total	<b>\$ 9,623</b>	<b>\$ (1,361 )</b>	<b>\$ 409</b>	<b>\$ 1,250</b>	<b>\$ 9,921</b>

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	BALANCE AT DECEMBER 31, 2013	CHARGE- OFFS	RECOVERIES	PROVISION (CREDIT)	BALANCE AT DECEMBER 31, 2014
Commercial	\$ 2,844	\$ (172 )	\$ 141	\$ 449	\$ 3,262
Commercial loans secured by real estate	4,885	(708 )	231	(506 )	3,902
Real estate-mortgage	1,260	(322 )	71	301	1,310
Consumer	136	(121 )	24	151	190
Allocation for general risk	979			(20 )	959
Total	\$ 10,104	\$ (1,323 )	\$ 467	\$ 375	\$ 9,623

	BALANCE AT DECEMBER 31, 2012	CHARGE- OFFS	RECOVERIES	PROVISION (CREDIT)	BALANCE AT DECEMBER 31, 2013
Commercial	\$ 2,596	\$ (50 )	\$ 80	\$ 218	\$ 2,844
Commercial loans secured by real estate	7,796	(1,777 )	481	(1,615 )	4,885
Real estate-mortgage	1,269	(139 )	122	8	1,260
Consumer	150	(154 )	70	70	136
Allocation for general risk	760			219	979
Total	\$ 12,571	\$ (2,120 )	\$ 753	\$ (1,100 )	\$ 10,104

The higher provision for commercial loans was necessary due to the transfer into non-accrual status of a \$4.1 million loan to a customer in the fracking industry that filed for bankruptcy protection in the fourth quarter. This is the Company's only meaningful direct loan exposure to the energy industry. The higher provision was also needed to support the continuing growth of the loan portfolio and cover net loan charge-offs. Overall, even with the increase in non-performing assets, the Company continues to maintain strong asset quality. At December 31, 2015, non-performing assets totaled \$5.3 million, or 0.71% of total loans.

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

AT DECEMBER 31, 2015

(IN THOUSANDS)					
Loans:	COMMERCIAL LOANS SECURED BY REAL ESTATE	COMMERCIAL LOANS UNSECURED BY REAL ESTATE	REAL ESTATE- MORTGAGE	CONSUMER	TOTAL
Individually evaluated for impairment	\$4,416	\$ 86	\$	\$	\$4,502
Collectively evaluated for impairment	176,650	421,551	257,937	20,344	876,482
Total loans	\$181,066	\$ 421,637	\$ 257,937	\$ 20,344	\$880,984

AT DECEMBER 31, 2015 (IN THOUSANDS)					
Allowance for loan losses:	COMMERCIAL LOANS SECURED BY REAL ESTATE	COMMERCIAL LOANS UNSECURED BY REAL ESTATE	REAL ESTATE- MORTGAGE	CONSUMER	TOTAL
Specific reserve allocation	\$1,387	\$	\$	\$	\$1,387
General reserve allocation	2,857	3,449	1,173	151	8,534
Total allowance for loan losses	\$4,244	\$ 3,449	\$ 1,173	\$ 151	\$9,921

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TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****5. ALLOWANCE FOR LOAN LOSSES (continued)**

AT DECEMBER 31, 2014 (IN THOUSANDS)					
Loans:	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE- MORTGAGE	CONSUMER	TOTAL	
Individually evaluated for impairment	\$ 989	\$	\$	\$	\$989
Collectively evaluated for impairment	139,126	409,340	258,616	19,009	826,091
Total loans	\$139,126	\$ 410,329	\$ 258,616	\$ 19,009	\$827,080

AT DECEMBER 31, 2014 (IN THOUSANDS)						
Allowance for loan losses:	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE- MORTGAGE	CONSUMER	ALLOCATION FOR GENERAL RISK	TOTAL	
Specific reserve allocation	\$ 520	\$	\$	\$	\$	\$520
General reserve allocation	3,262	3,382	1,310	190	959	9,103
Total allowance for loan losses	\$3,262	\$ 3,902	\$ 1,310	\$ 190	\$ 959	\$9,623

The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The loan segments 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 and therefore, no further disaggregation into classes is necessary. The overall risk profile for the commercial and commercial real estate loan segments are impacted by non-owner occupied CRE loans, which include loans secured by non-owner occupied nonfarm nonresidential properties, as a meaningful but declining portion of the commercial portfolio is centered in these types of accounts. The residential mortgage loan segment is comprised of first lien amortizing residential mortgage loans and home equity loans secured by residential real estate. The consumer loan segment consists primarily of installment loans and overdraft lines of credit connected with customer deposit accounts.

Management evaluates for possible impairment any individual loan in the commercial or commercial real estate segment with a loan balance in excess of \$100,000 that is in nonaccrual status or classified as a Troubled Debt Restructure (TDR). Loans are considered to be impaired when, based on current information and events, it is probable

that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Company does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a TDR.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs for collateral dependent loans. The method is selected on a loan-by-loan basis,

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**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. ALLOWANCE FOR LOAN LOSSES (continued)**

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 Assigned Risk 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.

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.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****5. ALLOWANCE FOR LOAN LOSSES (continued)**

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

AT DECEMBER 31, 2015				
	IMPAIRED LOANS WITH SPECIFIC ALLOWANCE	IMPAIRED LOANS WITH NO SPECIFIC ALLOWANCE	TOTAL IMPAIRED LOANS	UNPAID PRINCIPAL BALANCE
	RECORDED INVESTMENT	RECORDED INVESTMENT	RECORDED INVESTMENT	
	ALLOWANCE	ALLOWANCE		
	(IN THOUSANDS)			
Commercial	<b>\$4,416</b>	<b>\$ 1,387</b>	<b>\$</b>	<b>\$4,416</b>
Commercial loans secured by real estate		<b>86</b>	<b>86</b>	<b>522</b>
Total impaired loans	<b>\$4,416</b>	<b>\$ 1,387</b>	<b>\$ 86</b>	<b>\$4,502</b>

AT DECEMBER 31, 2014				
	IMPAIRED LOANS WITH SPECIFIC ALLOWANCE	IMPAIRED LOANS WITH NO SPECIFIC ALLOWANCE	TOTAL IMPAIRED LOANS	UNPAID PRINCIPAL BALANCE
	RECORDED INVESTMENT	RECORDED INVESTMENT	RECORDED INVESTMENT	
	ALLOWANCE	ALLOWANCE		
	(IN THOUSANDS)			
Commercial loans secured by real estate	<b>\$989</b>	<b>\$ 520</b>	<b>\$</b>	<b>\$989</b>
Total impaired loans	<b>\$989</b>	<b>\$ 520</b>	<b>\$</b>	<b>\$989</b>

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

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS)		
Average impaired balance:			
Commercial	<b>\$ 1,271</b>	<b>\$</b>	<b>\$ 13</b>

Commercial loans secured by real estate	<b>866</b>	1,756	2,459
Consumer	<b>9</b>		37
Average investment in impaired loans	<b>\$ 2,146</b>	\$ 1,756	\$ 2,509
Interest income recognized:			
Commercial	<b>\$ 10</b>	\$	\$
Commercial loans secured by real estate	<b>17</b>	12	11
Consumer			3
Interest income recognized on a cash basis on impaired loans	<b>\$ 27</b>	\$ 12	\$ 14

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 follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****5. ALLOWANCE FOR LOAN LOSSES (continued)**

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 and rating concurrence from the Company's internal Loan Review Department. The

Loan Review Department is an experienced independent function which reports directly to the Board's Audit Committee. The scope of commercial portfolio coverage by the Loan Review Department is defined and presented to the Audit Committee for approval on an annual basis. The approved scope of coverage for 2015 required review of a minimum range of 50% to 55% of the commercial loan portfolio.

In addition to loan monitoring by the account officer and Loan Review Department, the Company also requires presentation of all credits rated Pass-6 with aggregate balances greater than \$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 loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system.

	AT DECEMBER 31, 2015				
	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	TOTAL
	(IN THOUSANDS)				
Commercial	\$174,616	\$ 1,811	\$ 3,318	\$ 1,321	\$181,066
Commercial loans secured by real estate	416,331	3,100	2,188	18	421,637
Total	\$590,947	\$ 4,911	\$ 5,506	\$ 1,339	\$602,703



AT DECEMBER 31, 2014

	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	TOTAL
	(IN THOUSANDS)				
Commercial	\$132,665	\$ 161	\$ 6,164	\$ 136	\$139,126
Commercial loans secured by real estate	406,195	620	3,238	276	410,329
Total	\$538,860	\$ 781	\$ 9,402	\$ 412	\$549,455

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 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

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****5. ALLOWANCE FOR LOAN LOSSES (continued)**

charged off. The following tables present the performing and non-performing outstanding balances of the residential and consumer portfolios (in thousands).

	AT DECEMBER 31, 2015	
	PERFORMING	NON-PERFORMING
	(IN THOUSANDS)	
Real estate-mortgage	\$ 256,149	\$ 1,788
Consumer	20,344	
Total	\$ 276,493	\$ 1,788

	AT DECEMBER 31, 2014	
	PERFORMING	NON-PERFORMING
	(IN THOUSANDS)	
Real estate-mortgage	\$ 257,199	\$ 1,417
Consumer	19,009	
Total	\$ 276,208	\$ 1,417

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.

	AT DECEMBER 31, 2015						
	CURRENT	30 DAYS PAST DUE	59 DAYS PAST DUE	60 DAYS PAST DUE	89 DAYS PAST DUE	90 DAYS PAST DUE	TOTAL PAST DUE
	(IN THOUSANDS)						TOTAL LOANS
Commercial	\$176,216	\$489		\$4,361		\$	\$4,850
Commercial loans secured by real estate	421,247	208		182			\$181,066
Real estate-mortgage	254,288	2,658		442		549	\$421,637
Consumer	20,115	67		162			3,649
							257,937
							229
							20,344

Total **\$871,866** **\$3,422** **\$5,147** **\$ 549** **\$9,118** **\$880,984** **\$**

AT DECEMBER 31, 2014

	CURRENT	30 DAYS PAST DUE	59 DAYS PAST DUE	60 DAYS PAST DUE	89 DAYS PAST DUE	90 DAYS PAST DUE	TOTAL PAST DUE	TOTAL LOANS	90 DAYS PAST DUE AND STILL ACCRUING
	(IN THOUSANDS)								
Commercial	\$139,126	\$		\$		\$	\$	\$139,126	\$
Commercial loans secured by real estate	410,049	280					280	410,329	
Real estate-mortgage	255,021	2,196		332		1,067	3,595	258,616	
Consumer	18,927	74		8			82	19,009	
Total	\$823,123	\$2,550	\$ 340	\$ 340	\$ 1,067	\$ 1,067	\$3,957	\$827,080	\$

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**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. ALLOWANCE FOR LOAN LOSSES (continued)**

An allowance for loan losses ( ALL ) is maintained to absorb losses 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 and residential mortgage 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 and residential mortgage 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.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****6. NON-PERFORMING ASSETS INCLUDING TROUBLED DEBT RESTRUCTURINGS**

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

The following tables present information concerning non-performing assets including TDR:

	AT DECEMBER 31, 2015      2014 (IN THOUSANDS, EXCEPT PERCENTAGES)	
Non-accrual loans:		
Commercial	<b>\$4,260</b>	\$
Commercial loans secured by real estate	<b>18</b>	778
Real estate-mortgage	<b>1,788</b>	1,417
Total	<b>6,066</b>	2,195
Other real estate owned:		
Commercial loans secured by real estate		384
Real estate-mortgage	<b>75</b>	128
Total	<b>75</b>	512
Total restructured loans not in non-accrual (TDR)	<b>156</b>	210
Total non-performing assets including TDR	<b>\$6,297</b>	\$ 2,917
Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned	<b>0.71 %</b>	0.35 %

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

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

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

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

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

the borrower is currently in default on their loan(s);

the borrower has filed for bankruptcy;

the borrower has insufficient cash flows to service their loan(s); and

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

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

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

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

Any loan modification where the borrower's aggregate exposure is at least \$250,000 and where the loan currently maintains a criticized or classified risk rating, i.e. Special Mention, Substandard or Doubtful, or where the loan will be assigned a criticized or classified rating after the modification is evaluated to determine the need for TDR classification. The specific ALL reserve for loans modified as TDR's was \$1.4 million and \$520,000 as of December 31, 2015 and 2014, respectively.

The following table details the TDRs at December 31, 2015 (dollars in thousands).

Loans in non-accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	6	\$ 4,320	Extension of maturity date

Loans in accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	1	\$ 156	Extension of maturity date

The following table details the TDRs at December 31, 2014 (dollars in thousands).

Loans in non-accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	2	\$ 210	Extension of maturity date

Loans in accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	2	\$ 742	Extension of maturity date

The following table details the TDRs at December 31, 2013 (dollars in thousands).

Loans in non-accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	2	\$ 1,250	Extension of maturity date

Loans in accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	2	\$ 161	Extension of maturity date
Consumer	2	61	Extension of maturity date

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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.

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

The following table presents the recorded investment in loans that were modified as TDR s in the previous 12 months and defaulted during these reporting periods (in thousands).

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
<u>Recorded investment of defaults</u>			
Commercial loan secured by real estate	\$	\$	\$ 1,480
Total	\$	\$	\$ 1,480

All TDRs are individually evaluated for impairment and a related allowance is recorded, as needed. All TDRs which defaulted in the above table had a related allowance adequate to reserve for anticipated losses.

The Company is unaware of any additional loans which are required to either be charged-off or added to the non-performing asset totals disclosed above. OREO is recorded at the lower of 1) fair value minus estimated costs to sell, or 2) carrying cost.

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

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS)		
Interest income due in accordance with original terms	\$ 94	\$ 136	\$ 178
Interest income recorded			

Net reduction in interest income	<b>\$ 94</b>	\$ 136	\$ 178
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Foreclosed assets acquired in settlement of loans carried at fair value less estimated costs to sell are included in the other assets on the Consolidated Balance Sheet. As of December 31, 2015 and 2014, a total of \$75,000 and \$128,000, respectively of residential real estate foreclosed assets were included in other assets. As of December 31, 2015, the Company had initiated formal foreclosure procedures on \$323,000 of consumer residential mortgages.

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An analysis of premises and equipment follows:

	AT DECEMBER 31,	
	2015	2014
	(IN THOUSANDS)	
Land	\$ 1,198	\$ 1,198
Premises	24,096	24,175
Furniture and equipment	8,291	8,337
Leasehold improvements	696	689
Total at cost	34,281	34,399
Less: Accumulated depreciation and amortization	22,173	21,387
Premises and equipment, net	\$ 12,108	\$ 13,012

The Company recorded depreciation expense of \$1.8 million for both years 2015 and 2014, respectively.

**8. DEPOSITS**

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

	AT DECEMBER 31,	
	2015	2014
	(IN THOUSANDS)	
Demand:		
Non-interest bearing	\$ 188,947	\$ 167,551
Interest bearing	92,037	89,676
Savings	93,949	90,020
Money market	258,818	221,378
Certificates of deposit in denominations of \$100,000 or more	31,422	50,529
Other time	238,121	250,727
Total deposits	\$ 903,294	\$ 869,881

Interest expense on deposits consisted of the following:

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS)		
Interest bearing demand	\$ 199	\$ 191	\$ 138

Savings	<b>156</b>	144	139
Money market	<b>817</b>	761	736
Certificates of deposit in denominations of \$100,000 or more	<b>266</b>	268	289
Other time	<b>3,314</b>	3,525	3,862
Total interest expense	<b>\$ 4,752</b>	\$ 4,889	\$ 5,164

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**AMERISERV FINANCIAL, INC.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 8. DEPOSITS (continued)

The following table sets forth the balance of other time deposits and certificates of deposit of \$100,000 or more as of December 31, 2015 maturing in the periods presented:

YEAR:	OTHER TIME DEPOSITS	CERTIFICATES OF DEPOSIT OF \$100,000 OR MORE
	(IN THOUSANDS)	
2016	\$ 102,774	\$ 28,288
2017	26,971	1,988
2018	36,165	945
2019	28,543	100
2020	17,013	
2021 and after	26,655	101
Total	\$ 238,121	\$ 31,422

The maturities on certificates of deposit greater than \$100,000 or more as of December 31, 2015, are as follows:

MATURING IN:	(IN THOUSANDS)
Three months or less	\$ 6,868
Over three through six months	12,588
Over six through twelve months	8,832
Over twelve months	3,134
Total	\$ 31,422

The aggregate amount of time deposit accounts (including certificates of deposit) that meet or exceed the FDIC insurance limit at December 31, 2015 and 2014 are \$46.1 million and \$65.2 million, respectively.

## 9. SHORT-TERM BORROWINGS

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

AT DECEMBER 31, 2015  
FEDERAL SHORT-TERM  
FUNDS BORROWINGS

	PURCHASED (IN THOUSANDS, EXCEPT RATES)		
Balance	\$	\$	48,748
Maximum indebtedness at any month end			65,071
Average balance during year			24,582
Average rate paid for the year		0.35	%
Interest rate on year-end balance		0.43	

	AT DECEMBER 31, 2014 FEDERAL FUNDS SHORT-TERM PURCHASED BORROWINGS (IN THOUSANDS, EXCEPT RATES)		
Balance	\$	\$	38,880
Maximum indebtedness at any month end			47,762
Average balance during year			18,783
Average rate paid for the year		0.29	%
Interest rate on year-end balance		0.27	

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	AT DECEMBER 31, 2013		
	FEDERAL FUNDS PURCHASES	OTHER SHORT-TERM BORROWINGS	
	(IN THOUSANDS, EXCEPT RATES)		
Balance	\$	\$	41,555
Maximum indebtedness at any month end			41,555
Average balance during year	959		16,482
Average rate paid for the year	0.34 %	0.26	%
Interest rate on year-end balance		0.25	

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

These borrowing transactions can range from overnight to one year in maturity. The average maturity was three days at the end of 2015, and one day for 2014 and 2013.

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

Advances from the FHLB consist of the following:

MATURING	AT DECEMBER 31, 2015		
	WEIGHTED	AVERAGE BALANCE	YIELD
	(IN THOUSANDS, EXCEPT RATES)		
2016	0.81	\$	12,000
2017	1.06		12,000
2018	1.48		12,000
2019	1.73		7,000
2020	1.69		5,000
Total advances from FHLB	1.27	\$	48,000

MATURING	AT DECEMBER 31, 2014	
	WEIGHTED AVERAGE BALANCE YIELD (IN THOUSANDS, EXCEPT RATES)	
2015	0.52	\$ 4,000
2016	0.81	12,000
2017	1.06	12,000
2018	1.51	10,000
2019	1.88	4,000
Total advances from FHLB	1.12	\$ 42,000

The Company's subsidiary Bank is a member of the FHLB which provides this subsidiary with the opportunity to obtain short to longer-term advances based upon the Company's investment in assets secured by one- to four-family residential real estate and certain types of CRE. The rate on open repo plus advances, which are typically overnight borrowings, can change daily, while the rate on the advances is fixed until the maturity of the advance. All FHLB stock along with an interest in certain residential mortgage and CRE loans with an aggregate statutory value equal to the amount of the advances, are pledged as collateral to the FHLB of Pittsburgh to support these borrowings. At December 31, 2015, the Company had immediately available



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

\$350 million of overnight borrowing capability at the FHLB, \$33 million of short-term borrowing availability at the Federal Reserve Bank and \$39 million of unsecured federal funds lines with correspondent banks.

**Guaranteed Junior Subordinated Deferrable Interest Debentures:**

On April 28, 1998, the Company completed a \$34.5 million public offering of 8.45% Trust Preferred Securities, which represent undivided beneficial interests in the assets of a Delaware business trust, AmeriServ Financial Capital Trust I. The Trust Preferred Securities will mature on June 30, 2028, and are callable at par at the option of the Company after June 30, 2003. Proceeds of the issue were invested by AmeriServ Financial Capital Trust I in Junior Subordinated Debentures issued by the Company. Unamortized deferred issuance costs associated with the Trust Preferred Securities amounted to \$193,000 as of December 31, 2015 and are included in other assets on the Consolidated Balance Sheets, and are being amortized on a straight-line basis over the term of the issue. The Trust Preferred securities are listed on NASDAQ under the symbol ASRVP. The Company used \$22.5 million of proceeds from a private placement of common stock to redeem Trust Preferred Securities in 2005 and 2004. The balance as of December 31, 2015 and 2014 was \$13.1 million.

**Subordinated Debt:**

On December 29, 2015, the Company completed a private placement of \$7.65 million in aggregate principal amount of fixed rate subordinated notes to certain accredited investors. The subordinated notes mature December 31, 2025 and have a 6.50% fixed interest rate for the entire term. This subordinated debt has been structured to qualify as Tier 2 capital under the Federal Reserve's capital guidelines and will be non-callable for five years. Unamortized deferred issuance costs associated with the subordinated debt amounted to \$232,000 as of December 31, 2015 and are included in other assets on the Consolidated Balance Sheets, and are being amortized on a straight-line basis over the term of the issue. The Company used the proceeds from this private placement and other cash on hand to redeem all \$21 million of its issued and outstanding SBLF preferred stock on January 27, 2016. For more information on this redemption see Note 26 Subsequent Event.

**11. DISCLOSURES ABOUT FAIR VALUE MEASUREMENTS**

The following disclosures establish a hierarchical framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. 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.

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

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(continued)**

The following table presents the assets reported on the Consolidated Balance Sheets at their fair value as of December 31, 2015 and 2014, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

**Assets and Liability Measured on a Recurring Basis:**

Assets and liability measured at fair value on a recurring basis are summarized below (in thousands):

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2015 USING			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Assets:				
U.S. Agency securities	\$ 2,881	\$	\$ 2,881	\$
U.S. Agency mortgage-backed securities	98,334		98,334	
Corporate bonds	18,252		18,252	

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2014 USING			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Assets:				
U.S. Agency securities	\$ 5,906	\$	\$ 5,906	\$
U.S. Agency mortgage-backed securities	105,768		105,768	
Corporate bonds	15,436		15,436	

**Assets Measured on a Non-recurring Basis:**

Assets measured at fair value on a non-recurring basis are summarized below (in thousands):

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2015 USING			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Assets:				
Impaired loans	\$ 3,115	\$	\$	\$ 3,115
Other real estate owned	75			75

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2014 USING			
	TOTAL	(LEVEL 1)	(LEVEL 2) (LEVEL 3)
Assets:			
Impaired loans	\$ 469	\$	\$ 469
Other real estate owned	512		512

Loans considered impaired are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are reported at fair value of the underlying collateral if the repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on observable market data which at times are discounted.

At December 31, 2015, impaired loans with a carrying value of \$4.5 million were reduced by specific valuation allowance totaling \$1.4 million resulting in a net fair value of \$3.1 million. At December 31, 2014, impaired loans with a carrying value of \$989,000 were reduced by specific valuation allowance totaling \$520,000 resulting in a net fair value of \$469,000.

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

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(continued)**

December 31, 2015	Quantitative Information About Level 3 Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Wgtd Ave)
Impaired loans	<b>\$3,115</b>	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	15% to 20% (17%)
Other real estate owned	<b>75</b>	Appraisal of collateral <sup>(1),(3)</sup>	Appraisal adjustments <sup>(2)</sup>	23% to 49% (35%)
			Liquidation expenses <sup>(2)</sup>	10% to 59% (25%)
December 31, 2014	Quantitative Information About Level 3 Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Wgtd Ave)
Impaired loans	<b>\$469</b>	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	0% to 37%(30%)
			Liquidation expenses <sup>(2)</sup>	1% to 15%(10%)
Other real estate owned	<b>512</b>	Appraisal of collateral <sup>(1),(3)</sup>	Appraisal adjustments <sup>(2)</sup>	47% to 83%(55%)
			Liquidation expenses <sup>(2)</sup>	1% to 61%(9%)

(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 and estimated liquidation expenses.

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

**12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

Fair values have been determined by the Company using independent third party valuations that uses best available data (Level 2) and an estimation methodology (Level 3) the Company believes is suitable for each category of financial instruments. Management believes that cash and cash equivalents, and loans and deposits with floating interest rates have estimated fair values which approximate the recorded carrying values. The estimation methodologies used, the estimated fair values based on US GAAP measurements, and recorded carrying values at December 31, 2015 and 2014, were as follows:

		AT DECEMBER 31, 2015				
		Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
		(IN THOUSANDS)				
FINANCIAL ASSETS:						
Cash and cash equivalents		\$48,510	\$48,510	\$48,510	\$	\$
Investment securities	AFS	119,467	119,467		119,467	
Investment securities	HTM	21,419	21,533		18,608	2,925
Regulatory stock		6,753	6,753	6,753		
Loans held for sale		3,003	3,041	3,041		
Loans, net of allowance for loan loss and unearned income		871,063	869,591			869,591
Accrued interest income receivable		3,057	3,057	3,057		
Bank owned life insurance		37,228	37,228	37,228		
FINANCIAL LIABILITIES:						
Deposits with no stated maturities		\$633,751	\$633,751	\$633,751	\$	\$
Deposits with stated maturities		269,543	271,909			271,909
Short-term borrowings		48,748	48,748	48,748		
All other borrowings		68,735	72,241			72,241
Accrued interest payable		1,651	1,651	1,651		

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

AT DECEMBER 31, 2014					
	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
(IN THOUSANDS)					
<b>FINANCIAL ASSETS:</b>					
Cash and cash equivalents	\$32,872	\$32,872	\$32,872	\$	\$
Investment securities AFS	127,110	127,110		127,110	
Investment securities HTM	19,840	20,213		17,241	2,972
Regulatory stock	6,173	6,173	6,173		
Loans held for sale	5,051	5,127	5,127		
Loans, net of allowance for loan loss and unearned income	817,457	819,935			819,935
Accrued interest income receivable	3,127	3,127	3,127		
Bank owned life insurance	37,417	37,417	37,417		
<b>FINANCIAL LIABILITIES:</b>					
Deposits with no stated maturities	\$568,625	\$568,625	\$568,625	\$	\$
Deposits with stated maturities	301,256	304,744			304,744
Short-term borrowings	38,880	38,880	38,880		
All other borrowings	55,085	59,256			59,256
Accrued interest payable	1,706	1,706	1,706		
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.

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.



TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

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, are not considered material for disclosure. The contractual amounts of unfunded commitments are presented in Note 16.

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.

**13. INCOME TAXES**

The expense for income taxes is summarized below:

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS)		
Current	\$ 1,455	\$ 1,036	\$ 139
Deferred	888	562	2,150
Income tax expense	\$ 2,343	\$ 1,598	\$ 2,289

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

	YEAR ENDED DECEMBER 31,					
	2015		2014		2013	
	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	RATE
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Income tax expense based on federal statutory rate	\$2,836	34.0 %	\$1,571	34.0 %	\$2,544	34.0 %
Tax exempt income	(574 )	(6.9 )	(274 )	(5.9 )	(359 )	(4.8 )
Other	81	1.0	301	6.5	104	1.4
Total expense for income taxes	\$2,343	28.1 %	\$1,598	34.6 %	\$2,289	30.6 %



TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****13. INCOME TAXES (continued)**

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

	AT DECEMBER 31,	
	2015	2014
	(IN THOUSANDS)	
DEFERRED TAX ASSETS:		
Allowance for loan losses	\$ 3,373	\$ 3,272
Unfunded commitment reserve	298	300
Premises and equipment	1,602	1,433
Accrued pension obligation	1,658	2,358
Net operating loss carryforwards		242
Alternative minimum tax credits	2,248	2,820
Other	487	349
Total tax assets	9,666	10,774
DEFERRED TAX LIABILITIES:		
Investment accretion	(16 )	(25 )
Unrealized investment security gains	(420 )	(950 )
Other	(237 )	(251 )
Total tax liabilities	(673 )	(1,226 )
Net deferred tax asset	\$ 8,993	\$ 9,548

At December 31, 2015 and 2014, the Company had no valuation allowance established against its deferred tax assets as we believe the Company will generate sufficient future taxable income to fully utilize all net operating loss carryforwards and alternative minimum tax (AMT) credits.

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

	YEAR ENDED DECEMBER 31,	
	2015	2014
	(IN THOUSANDS)	
Unrealized gains recognized in comprehensive income	\$ 530	\$ (404 )
Pension obligation of the defined benefit plan not yet recognized in income	(197)	942
Deferred provision for income taxes	(888)	(562 )
Net decrease	\$(555)	\$ (24 )

The Company has AMT credit carryforwards of approximately \$2.2 million at December 31, 2015. These credits have an indefinite carryforward period. The Company has fully recognized all of its net operating loss carryforward in 2015.

The Company utilizes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met.

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Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. The Company has no tax liability for uncertain tax positions. The Company's federal and state income tax returns for taxable years through 2012 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

**14. EMPLOYEE BENEFIT PLANS****PENSION PLANS:**

The Company has a noncontributory defined benefit pension plan covering all employees who work at least 1,000 hours per year. The participants shall have a vested interest in their accrued benefit after five full years of service. The benefits of the plan are based upon the employee's years of service and average annual earnings for the highest five consecutive calendar years during the final ten year period of employment. Effective January 1, 2013, the Company implemented a soft freeze of its defined benefit pension plan for non-union employees. A soft freeze means that all existing employees as of December 31, 2012 will remain in the defined benefit pension plan but any new non-union employees hired after January 1, 2013 will no longer be part of the defined benefit plan but instead will be offered retirement benefits under an enhanced 401K program. The Company implemented a similar soft freeze of its defined benefit pension plan for union employees effective January 1, 2014. The Company executed these changes to help reduce its pension costs in future years. Plan assets are primarily debt securities (including U.S. Treasury and Agency securities, corporate notes and bonds), listed common stocks (including shares of the Company's common stock valued at \$666,000 and is limited to 10% of the plan's assets), mutual funds, and short-term cash equivalent instruments. The following actuarial tables are based upon data provided by an independent third party as of December 31, 2015.

**PENSION BENEFITS:**

	YEAR ENDED DECEMBER 31, 2015          2014 (IN THOUSANDS)	
<b>CHANGE IN BENEFIT OBLIGATION:</b>		
Benefit obligation at beginning of year	<b>\$ 33,701</b>	\$ 30,249
Service cost	<b>1,557</b>	1,601
Interest cost	<b>1,341</b>	1,368
Actuarial (gain) loss	<b>(1,063 )</b>	3,406
Curtailments		328
Special/contractual termination benefits		376

Benefits paid	<b>(2,419 )</b>	(3,627 )
Benefit obligation at end of year	<b>33,117</b>	33,701
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	<b>27,367</b>	26,288
Actual return on plan assets	<b>(154 )</b>	2,056
Employer contributions	<b>3,635</b>	2,650
Benefits paid	<b>(2,419 )</b>	(3,627 )
Fair value of plan assets at end of year	<b>28,429</b>	27,367
Funded status of the plan    under funded	<b>\$ (4,688 )</b>	\$ (6,334 )

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YEAR ENDED  
DECEMBER 31,  
2015      2014  
(IN THOUSANDS)

AMOUNTS NOT YET RECOGNIZED AS A COMPONENT OF NET  
PERIODIC PENSION COST:

Amounts recognized in accumulated other comprehensive loss consists  
of:

Net actuarial loss	<b>\$12,431</b>	\$12,596
Total	<b>\$12,431</b>	\$12,596

YEAR ENDED  
DECEMBER 31,  
2015      2014  
(IN THOUSANDS)

ACCUMULATED BENEFIT OBLIGATION:

Accumulated benefit obligation	<b>\$30,606</b>	\$30,914
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The weighted-average assumptions used to determine benefit obligations at December 31, 2015 and 2014 were as follows:

YEAR ENDED  
DECEMBER 31,  
2015      2014

WEIGHTED AVERAGE ASSUMPTIONS:

Discount rate	<b>4.20 %</b>	4.00 %
Salary scale	<b>2.50</b>	2.50

YEAR ENDED DECEMBER 31,  
2015      2014      2013  
(IN THOUSANDS)

COMPONENTS OF NET PERIODIC BENEFIT COST:

Service cost	<b>\$1,557</b>	\$1,601	\$1,703
Interest cost	<b>1,341</b>	1,368	1,189
Expected return on plan assets	<b>(2,130 )</b>	(1,991 )	(1,775 )
Amortization of prior year service cost		(19 )	(19 )

Amortization of transition asset			(8 )
Special termination benefit liability		376	
Recognized net actuarial loss	<b>1,386</b>	1,181	1,375
Net periodic pension cost	<b>\$ 2,154</b>	\$ 2,516	\$ 2,465

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	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS)		
OTHER CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE LOSS			
Net (gain) loss	\$1,221	\$3,669	\$(2,832 )
Recognized loss	(1,386)	(1,181)	(1,375 )
Recognized prior service cost		19	19
Recognized net initial asset			8
Total recognized in other comprehensive loss before tax effect	\$(165)	\$2,507	\$(4,180 )
Total recognized in net benefit cost and other comprehensive loss before tax effect	\$1,989	\$5,023	\$(1,715 )

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is \$1,051,000.

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2015, 2014 and 2013 were as follows:

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
WEIGHTED AVERAGE ASSUMPTIONS:			
Discount rate	<b>4.00 %</b>	4.50 %	4.00 %
Expected return on plan assets	<b>8.00</b>	8.00	8.00
Rate of compensation increase	<b>2.50</b>	2.50	2.50

The Company has assumed an 8% long-term expected return on plan assets. This assumption was based upon the plan's historical investment performance over a longer-term period of 15 years combined with the plan's investment objective of balanced growth and income. Additionally, this assumption also incorporates a targeted range for equity securities of approximately 60% of plan assets.

**PLAN ASSETS:**

The plan's measurement date is December 31, 2015. This plan's asset allocations at December 31, 2015 and 2014, by asset category are as follows:

ASSET CATEGORY:	YEAR ENDED DECEMBER 31,			
	2015		2014	
Cash and cash equivalents	<b>6</b>	<b>%</b>	2	<b>%</b>
Domestic equities	<b>7</b>		10	
Mutual funds/ETFs	<b>75</b>		80	
International equities	<b>1</b>		3	
Corporate bonds	<b>11</b>		5	
Total	<b>100</b>	<b>%</b>	100	<b>%</b>

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

	YEAR ENDED DECEMBER 31, 2015      2014 (IN THOUSANDS)	
Level 1:		
Cash and cash equivalents	<b>\$ 1,611</b>	\$ 639
Domestic equities	<b>1,978</b>	2,753
International equities	<b>397</b>	851
Mutual funds/ETFs	<b>21,396</b>	21,782
Level 2:		
Corporate bonds	<b>3,047</b>	1,342
Total fair value of plan assets	<b>\$ 28,429</b>	\$ 27,367

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

The investment strategy objective for the pension plan is a balance of growth and income. This objective seeks to develop a portfolio for acceptable levels of current income together with the opportunity for capital appreciation. The balanced growth and income objective reflects a relatively equal balance between equity and fixed income investments such as debt securities. The allocation between equity and fixed income assets may vary by a moderate degree but the plan typically targets a range of equity investments between 50% and 60% of the plan assets. This means that fixed income and cash investments typically approximate 40% to 50% of the plan assets. The plan is also able to invest in ASRV common stock up to a maximum level of 10% of the market value of the plan assets (at December 31, 2015, 2.9% of the plan assets were invested in ASRV common stock). This asset mix is intended to ensure that there is a steady stream of cash from maturing investments to fund benefit payments.

**CASH FLOWS:**

The Company presently expects that the contribution to be made to the Plan in 2016 will be approximately \$3.0 million.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****14. EMPLOYEE BENEFIT PLANS (continued)****ESTIMATED FUTURE BENEFIT PAYMENTS:**

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

YEAR:	ESTIMATED FUTURE BENEFIT PAYMENTS (IN THOUSANDS)
2016	\$ 2,287
2017	2,417
2018	2,319
2019	2,215
2020	2,589
Years 2021 - 2025	11,706

**401(k) PLAN:**

The Company maintains a qualified 401(k) plan that allows for participation by Company employees. Under the plan, employees may elect to make voluntary, pretax contributions to their accounts which the Company will match one half on the first 2% of contribution up to a maximum of 1%. The Company also contributes 4% of salaries for union members who are in the plan. Effective January 1, 2013, any new non-union employees receive a 4% non-elective contribution and these employees may elect to make voluntary, pretax contributions to their accounts which the Company will match one half on the first 6% of contribution up to a maximum of 3%. Effective January 1, 2014, any new union employees receive a 4% non-elective contribution and these employees may elect to make voluntary, pretax contributions to their accounts which the Company will match dollar for dollar up to a maximum of 4%. Contributions by the Company charged to operations were \$433,000 and \$387,000 for the years ended December 31, 2015 and 2014, respectively. The fair value of plan assets includes \$1.4 million pertaining to the value of the Company's common stock and Trust Preferred securities that are held by the plan at December 31, 2015.

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

**15. LEASE COMMITMENTS**

The Company's obligation for future minimum lease payments on operating leases at December 31, 2015, is as follows:

YEAR:

	FUTURE MINIMUM LEASE PAYMENTS (IN THOUSANDS)
2016	\$ 716
2017	520
2018	342
2019	223
2020	234
2021 and thereafter	1,739

In addition to the amounts set forth above, certain of the leases require payments by the Company for taxes, insurance, and maintenance. Rent expense included in total non-interest expense amounted to \$821,000, \$732,000 and \$764,000, in 2015, 2014, and 2013, respectively.

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**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. COMMITMENTS AND CONTINGENT LIABILITIES**

The Company incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are obligations to lend to a customer as long as there is no violation of any condition established in the loan agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. Collateral which secures these types of commitments is the same as for other types of secured lending such as accounts receivable, inventory, and fixed assets.

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

The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending. At December 31, 2015, the Company had various outstanding commitments to extend credit approximating \$170.5 million and standby letters of credit of \$7.5 million, compared to commitments to extend credit of \$188.0 million and standby letters of credit of \$7.2 million at December 31, 2014. Standby letters of credit had terms ranging from 1 to 2 years with annual extension options available. Standby letters of credit of approximately \$2.7 million were secured as of December 31, 2015 and approximately \$3.3 million at December 31, 2014. The carrying amount of the liability for AmeriServ obligations related to unfunded commitments and standby letters of credit was \$877,000 at December 31, 2015 and \$882,000 at December 31, 2014.

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

## 17. PREFERRED STOCK

### SBLF:

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

On January 27, 2016, we redeemed the Series E Preferred Stock, at a redemption price of 100% of the liquidation amount plus accrued but unpaid dividends, after receiving approval of our federal banking regulator and the US Treasury. For more information regarding this redemption see Note 26 Subsequent Event.



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The Company uses the modified prospective method for accounting for stock-based compensation and recognized \$29,000 of pretax compensation expense for the year 2015, \$42,000 in 2014 and \$82,000 in 2013.

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

A summary of the status of the Company's Stock Incentive Plan at December 31, 2015, 2014, and 2013, and changes during the years then ended is presented in the table and narrative following:

	YEAR ENDED DECEMBER 31,					
	2015		2014		2013	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	<b>559,909</b>	<b>\$ 2.66</b>	487,349	\$ 2.55	398,371	\$ 2.43
Granted	<b>32,500</b>	<b>2.96</b>	115,000	3.18	102,445	3.19
Exercised	<b>(75,923 )</b>	<b>2.07</b>	(10,700 )	2.25	(3,467 )	1.81
Forfeited	<b>(46,037 )</b>	<b>3.04</b>	(31,740 )	3.08	(10,000 )	4.25
Outstanding at end of year	<b>470,449</b>	<b>2.74</b>	559,909	2.66	487,349	2.55
Exercisable at end of year	<b>336,555</b>	<b>2.58</b>	330,822	2.36	257,253	2.25
Weighted average fair value of options granted in current year		<b>\$ 0.67</b>		\$ 0.85		\$ 0.83

A total of 336,555 of the 470,449 options outstanding at December 31, 2015, are exercisable and have exercise prices between \$1.53 and \$4.70, with a weighted average exercise price of \$2.58 and a weighted average remaining contractual life of 5.79 years. All of these options are exercisable. The remaining 133,894 options that are not yet exercisable have exercise prices between \$2.96 and \$3.23, with a weighted average exercise price of \$3.13 and a weighted average remaining contractual life of 8.30 years. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2015, 2014, and 2013.

BLACK-SCHOLES ASSUMPTION RANGES	YEAR ENDED DECEMBER 31,				
	2015	2014		2013	
Risk-free interest rate	<b>1.97%</b>	2.43	2.74%	1.82	1.03%
Expected lives in years	<b>10</b>	10		10	
Expected volatility	<b>22%</b>	28	29%	30	32%
Expected dividend rate	<b>1.35%</b>	1.25	1.30%	1.30%	

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TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****19. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The following table presents the changes in each component of accumulated other comprehensive loss, net of tax, for the periods ending December 31, 2015 and 2014 (in thousands):

	YEAR ENDING DECEMBER 31, 2015			YEAR ENDING DECEMBER 31, 2014		
	Net Unrealized Gains and Losses on Investment Securities AFS <sup>(1)</sup>	Defined Benefit Pension Items <sup>(1)</sup>	Total <sup>(1)</sup>	Net Unrealized Gains and Losses on Investment Securities AFS <sup>(1)</sup>	Defined Benefit Pension Items <sup>(1)</sup>	Total <sup>(1)</sup>
Beginning balance	<b>\$1,843</b>	<b>\$(8,745)</b>	<b>\$(6,902)</b>	\$1,043	\$(6,918)	\$(5,875)
Other comprehensive income (loss) before reclassifications	<b>(989 )</b>	<b>(242 )</b>	<b>(1,231)</b>	917	(2,354)	(1,437)
Amounts reclassified from accumulated other comprehensive loss	<b>(46 )</b>	<b>624</b>	<b>578</b>	(117 )	527	410
Net current period other comprehensive income (loss)	<b>(1,035)</b>	<b>382</b>	<b>(653 )</b>	800	(1,827)	(1,027)
Ending balance	<b>\$808</b>	<b>\$(8,363)</b>	<b>\$(7,555)</b>	\$1,843	\$(8,745)	\$(6,902)

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

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the periods ending December 31, 2015 and 2014 (in thousands):

	Amount reclassified from accumulated other comprehensive loss <sup>(1)</sup>	YEAR ENDING DECEMBER 31, 2015	YEAR ENDING DECEMBER 31, 2014	Affected line item in the statement of operations
Details about accumulated other comprehensive loss components				

Unrealized gains and losses on sale of securities	<b>\$(71 )</b>	<b>\$ (177 )</b>	Net realized gains on investment securities
	<b>25</b>	<b>60</b>	Provision for income taxes
	<b>\$(46 )</b>	<b>\$ (117 )</b>	Net of tax
Amortization of defined benefit items <sup>(2)</sup>			
Recognized net actuarial loss	<b>\$946</b>	<b>\$ 813</b>	Salaries and employee benefits
Prior service cost		<b>(14 )</b>	Salaries and employee benefits
	<b>946</b>	<b>799</b>	Pretax income
	<b>(322)</b>	<b>(272 )</b>	Provision for income taxes
	<b>\$624</b>	<b>\$ 527</b>	Net income
Total reclassifications for the period	<b>\$578</b>	<b>\$ 410</b>	Net income

(1) Amounts in parentheses indicate credits.

(2) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost (see Note 14 for additional details).

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****20. INTANGIBLE ASSETS**

The Company's Consolidated Balance Sheets show both tangible assets (such as loans, buildings, and investments) and intangible assets (such as goodwill). Goodwill has an indefinite life and is not amortized. Instead such intangible is evaluated for impairment at the reporting unit level at least annually. Any resulting impairment would be reflected as a non-interest expense. Of the Company's goodwill of \$11.9 million, \$9.5 million is allocated to the retail banking segment and \$2.4 million relates to the WCCA acquisition which is included in the trust segment. In the third quarter of 2014, the Company performed a goodwill impairment test and determined that the fair value of WCCA was less than its carrying value and, accordingly, recorded an impairment charge of \$669,000. The goodwill impairment charge was the result of a reduction in earnings power caused by the departure of WCCA's former CEO and subsequent loss of a meaningful number of clients. A reconciliation of the Company's goodwill follows (in thousands):

	AT DECEMBER 31,	
	2015	2014
Balance at January 1	<b>\$ 11,944</b>	\$ 12,613
Goodwill impairment charge		(669 )
Balance at December 31	<b>\$ 11,944</b>	\$ 11,944

**21. 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.

The following table summarizes the interest rate swap transactions that impacted the Company's 2013 performance:

START DATE	MATURITY DATE	HEDGE TYPE	NOTIONAL AMOUNT	RATE RECEIVED	RATE PAID	REPRICING FREQUENCY	INCREASE (DECREASE) IN INTEREST EXPENSE
12/12/08	09/24/13	FAIR VALUE	\$9,000,000	5.25%	2.73%	MONTHLY	\$ 165,488
12/12/08	09/24/13	FAIR VALUE	9,000,000	2.73	5.25	MONTHLY	(165,488 )
							\$

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.

## **22. 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.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****22. SEGMENT RESULTS (continued)**

Retail banking includes the deposit-gathering branch franchise and lending to both individuals and small businesses. Lending activities include residential mortgage loans, direct consumer loans, and small business commercial loans. Commercial banking to businesses includes commercial loans, and CRE loans. The trust segment contains our wealth management businesses which include the Trust Company, 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, namely the ERECT and BUILD funds which are designed to use union pension dollars in construction projects that utilize union labor. The investment/parent includes the net results of investment securities and borrowing activities, general corporate expenses not allocated to the business segments, interest expense on guaranteed junior subordinated deferrable interest debentures, and centralized interest rate risk management. Inter-segment revenues were not material.

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

	YEAR ENDED DECEMBER 31, 2015				
	RETAIL BANKING	COMMERCIAL BANKING	TRUST	INVESTMENT/ PARENT	TOTAL
	(IN THOUSANDS)				
Net interest income	\$20,680	\$ 18,390	\$ 58	\$ (3,767)	\$35,361
Provision for loan loss	192	1,058			1,250
Non-interest income	5,537	552	8,683	495	15,267
Non-interest expense	21,849	10,303	6,606	2,280	41,038
Income (loss) before income taxes	4,176	7,581	2,135	(5,552 )	8,340
Income tax expense (benefit)	1,160	2,167	726	(1,710 )	2,343
Net income (loss)	\$3,016	\$ 5,414	\$ 1,409	\$ (3,842)	\$5,997
Total assets	\$415,433	\$ 589,840	\$ 5,263	\$ 138,386	\$1,148,922

	YEAR ENDED DECEMBER 31, 2014				
	RETAIL BANKING	COMMERCIAL BANKING	TRUST	INVESTMENT/ PARENT	TOTAL
	(IN THOUSANDS)				
Net interest income	\$20,141	\$ 16,777	\$ 47	\$ (2,921 )	\$34,044
Provision for loan loss	57	318			375

Non-interest income	5,633	381	8,118	191	14,323
Non-interest expense	22,531	10,868	6,967	3,005	43,371
Income (loss) before income taxes	3,186	5,972	1,198	(5,735 )	4,621
Income tax expense (benefit)	958	1,819	634	(1,813 )	1,598
Net income (loss)	\$2,228	\$ 4,153	\$ 564	\$ (3,922 )	\$ 3,023
Total assets	\$376,009	\$ 563,690	\$ 5,015	\$ 144,549	\$ 1,089,263

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TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****22. SEGMENT RESULTS (continued)**

	YEAR ENDED DECEMBER 31, 2013				
	RETAIL BANKING	COMMERCIAL BANKING	TRUST	INVESTMENT/ PARENT	TOTAL
	(IN THOUSANDS)				
Net interest income	\$20,223	\$ 15,687	\$ 35	\$ (3,084 )	\$32,861
Credit provision for loan loss	(92 )	(1,008 )			(1,100 )
Non-interest income	6,512	642	8,391	199	15,744
Non-interest expense	22,870	10,148	6,605	2,600	42,223
Income (loss) before income taxes	3,957	7,189	1,821	(5,485 )	7,482
Income tax expense (benefit)	1,165	2,166	619	(1,661 )	2,289
Net income (loss)	\$2,792	\$ 5,023	\$ 1,202	\$ (3,824 )	\$5,193
Total assets	\$347,823	\$ 545,556	\$ 4,722	\$ 157,935	\$1,056,036

**23. 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 financial statements.

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 I capital to risk-weighted assets, and of Tier I capital to average assets. As of December 31, 2015 and 2014, the Federal Reserve categorized the Company as Well Capitalized under the regulatory framework for prompt corrective action. The Company believes that no conditions or events have occurred that would change this conclusion. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. Additionally, while not a regulatory capital ratio, the Company's tangible common equity ratio was 7.57% and 7.56% for 2015 and 2014, respectively.

AT DECEMBER 31, 2015  
COMPANY                      BANK

MINIMUM TO BE  
REQUIRED WELL  
FOR CAPITALIZED

	CAPITAL UNDER ADEQUACY PROMPT PURPOSES		CORRECTIVE ACTION REGULATIONS*		RATIO	
	AMOUNT (IN THOUSANDS)	RATIO	AMOUNT	RATIO	RATIO	RATIO
	(IN THOUSANDS, EXCEPT RATIOS)					
Total Capital (To Risk Weighted Assets)	\$144,096	15.55 %	\$106,890	11.67 %	8.00 %	10.00 %
Tier 1 Common Equity (To Risk Weighted Assets)	93,202	10.06	96,092	10.49	4.50	6.50
Tier 1 Capital (To Risk Weighted Assets)	125,648	13.56	96,092	10.49	6.00	8.00
Tier 1 Capital (To Average Assets)	125,648	11.41	96,092	8.97	4.00	5.00

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TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****23. REGULATORY CAPITAL (continued)**

AT DECEMBER 31, 2014

	COMPANY		BANK		TO BE MINIMUMWELL REQUIRED FOR UNDER CAPITAL PROMPT ADEQUACY PURPOSES ACTION REGULATIONS*	
	AMOUNT	RATIO	AMOUNT	RATIO	RATIO	RATIO
	(IN THOUSANDS, EXCEPT RATIOS)					
Total Capital (To Risk Weighted Assets)	\$131,497	14.80 %	\$106,084	12.07 %	8.00 %	10.00 %
Tier 1 Common Equity (To Risk Weighted Assets)						
Tier 1 Capital (To Risk Weighted Assets)	120,992	13.62	95,579	10.88	4.00	6.00
Tier 1 Capital (To Average Assets)	120,992	11.34	95,579	9.19	4.00	5.00

\*

Applies to the Bank only.

On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. The final rules implement the Basel III regulatory capital reforms, as well as certain changes required by the Dodd-Frank Act, which will require institutions to, among other things, have more capital and a higher quality of capital by increasing the minimum regulatory capital ratios, and requiring capital buffers. The new rules became effective for the Company on January 1, 2015, with an implementation period that stretches to 2019. For a more detailed discussion see the Capital Resources section of the MD&A.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****24. PARENT COMPANY FINANCIAL INFORMATION**

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

**BALANCE SHEETS**

	AT DECEMBER 31,	
	2015	2014
	(IN THOUSANDS)	
<b>ASSETS</b>		
Cash	<b>\$100</b>	\$100
Short-term investments in money market funds	<b>21,793</b>	5,784
Investment securities available for sale	<b>8,484</b>	11,714
Equity investment in banking subsidiary	<b>100,726</b>	100,473
Equity investment in non-banking subsidiaries	<b>6,007</b>	5,685
Guaranteed junior subordinated deferrable interest debenture issuance costs	<b>193</b>	209
Subordinated debt issuance costs	<b>232</b>	
Other assets	<b>3,197</b>	4,698
<b>TOTAL ASSETS</b>	<b>\$140,732</b>	\$128,663
<b>LIABILITIES</b>		
Guaranteed junior subordinated deferrable interest debentures	<b>\$13,085</b>	\$13,085
Subordinated debt	<b>7,650</b>	
Other liabilities	<b>1,024</b>	1,171
<b>TOTAL LIABILITIES</b>	<b>21,759</b>	14,256
<b>STOCKHOLDERS' EQUITY</b>		
Total stockholders' equity	<b>118,973</b>	114,407
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$140,732</b>	\$128,663

**STATEMENTS OF OPERATIONS**

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS)		
<b>INCOME</b>			
Inter-entity management and other fees	<b>\$2,432</b>	\$2,432	\$2,355

Dividends from banking subsidiary	<b>5,100</b>	1,500	5,500
Dividends from non-banking subsidiaries	<b>975</b>	870	675
Interest, dividend and other income	<b>669</b>	262	243
<b>TOTAL INCOME</b>	<b>9,176</b>	5,064	8,773
<b>EXPENSE</b>			
Interest expense	<b>1,125</b>	1,121	1,121
Salaries and employee benefits	<b>2,302</b>	2,576	2,502
Other expense	<b>1,563</b>	1,996	1,608
<b>TOTAL EXPENSE</b>	<b>4,990</b>	5,693	5,231
<b>INCOME (LOSS) BEFORE INCOME TAXES AND</b>			
<b>EQUITY IN UNDISTRIBUTED EARNINGS OF</b>	<b>4,187</b>	(629 )	3,542
<b>SUBSIDIARIES</b>			
Benefit for income taxes	<b>642</b>	1,020	895
Equity in undistributed earnings of subsidiaries	<b>1,168</b>	2,632	756
<b>NET INCOME</b>	<b>\$5,997</b>	\$ 3,023	\$ 5,193
<b>COMPREHENSIVE INCOME</b>	<b>\$5,344</b>	\$ 1,996	\$ 4,697

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****24. PARENT COMPANY FINANCIAL INFORMATION (continued)**

## STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
	(IN THOUSANDS)		
<b>OPERATING ACTIVITIES</b>			
Net income	<b>\$5,997</b>	\$3,023	\$5,193
Adjustment to reconcile net income to net cash (used in) provided by operating activities:			
Equity in undistributed earnings of subsidiaries	<b>(1,168 )</b>	(2,632)	(756 )
Stock compensation expense	<b>29</b>	42	82
Other net	<b>842</b>	(505 )	(718 )
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>5,700</b>	(72 )	3,801
<b>INVESTING ACTIVITIES</b>			
Purchase of investment securities available for sale	<b>(1,533 )</b>	(2,027)	(3,885 )
Proceeds from maturity of investment securities available for sale	<b>4,669</b>	2,284	2,506
Proceeds from life insurance policies	<b>719</b>		
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>3,855</b>	257	(1,379 )
<b>FINANCING ACTIVITIES</b>			
Purchase of treasury stock			(1,171 )
Subordinated debt issuance, net	<b>7,418</b>		
Preferred stock dividends paid	<b>(210 )</b>	(210 )	(209 )
Common stock dividends paid	<b>(754 )</b>	(752 )	(566 )
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>6,454</b>	(962 )	(1,946 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>16,009</b>	(777 )	476
<b>CASH AND CASH EQUIVALENTS AT JANUARY 1</b>	<b>5,884</b>	6,661	6,185
<b>CASH AND CASH EQUIVALENTS AT DECEMBER 31</b>	<b>\$21,893</b>	\$5,884	\$6,661

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

management fee. The subsidiary Bank had a combined \$109,300,000 of restricted surplus and retained earnings at December 31, 2015.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****25. SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA (unaudited)**

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

	2015 QUARTER ENDED			
	DEC. 31	SEPT. 30	JUNE 30	MARCH 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income	\$ 10,282	\$ 10,667	\$ 10,409	\$ 10,523
Interest expense	1,690	1,632	1,609	1,589
Net interest income	8,592	9,035	8,800	8,934
Provision for loan losses	500	300	200	250
Net interest income after provision for loan losses	8,092	8,735	8,600	8,684
Non-interest income	3,848	4,015	3,692	3,712
Non-interest expense	10,170	10,219	10,239	10,410
Income before income taxes	1,770	2,531	2,053	1,986
Provision for income taxes	396	698	632	617
Net income	\$ 1,374	\$ 1,833	\$ 1,421	\$ 1,369
Basic earnings per common share	\$ 0.07	\$ 0.09	\$ 0.07	\$ 0.07
Diluted earnings per common share	0.07	0.09	0.07	0.07
Cash dividends declared per common share	0.01	0.01	0.01	0.01

	2014 QUARTER ENDED			
	DEC. 31	SEPT. 30	JUNE 30	MARCH 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income	\$10,344	\$10,019	\$9,983	\$10,095
Interest expense	1,612	1,616	1,599	1,570
Net interest income	8,732	8,403	8,384	8,525
Provision (credit) for loan losses	375			
Net interest income after provision (credit) for loan losses	8,357	8,403	8,384	8,525
Non-interest income	3,560	3,593	3,638	3,532
Non-interest expense	10,770	11,243	10,620	10,738
Income before income taxes	1,147	753	1,402	1,319
Provision for income taxes	398	388	423	389
Net income	\$749	\$365	\$979	\$930



Basic earnings per common share	\$0.04	\$0.02	\$0.05	\$0.05
Diluted earnings per common share	0.04	0.02	0.05	0.05
Cash dividends declared per common share	0.01	0.01	0.01	0.01

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**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**26. SUBSEQUENT EVENT**

On January 27, 2016, the Company redeemed all 21,000 preferred stock shares issued under the Small Business Lending Fund of the U.S. Department of the Treasury (SBLF). The Company received approval from the Board of Governors of the Federal Reserve System and the U.S. Department of Treasury to fully redeem the noncumulative perpetual preferred stock that had been issued to the U.S. Department of Treasury on August 11, 2011 in connection with the Company's participation in the SBLF program. The shares were redeemed at \$1,000 per share plus accrued dividends for a total redemption price of approximately \$21 million. The redemption was funded from the previously disclosed issuance of \$7.65 million of subordinated debt and \$13.4 million of cash and securities on hand. Following the redemption, the Company has no preferred shares outstanding. The Company continues to have capital in excess of minimum regulatory requirements and at levels that qualify as well capitalized under applicable regulatory guidelines. Under the program, the Company was able to leverage the funds to lend an additional \$192 million in loans to small businesses.

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# **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders  
AmeriServ Financial, Inc.

We have audited the accompanying consolidated balance sheets of AmeriServ Financial, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These consolidated financial statements are the responsibility of AmeriServ Financial, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AmeriServ Financial, Inc. and subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AmeriServ Financial, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 8, 2016, expressed an unqualified opinion on the effectiveness of AmeriServ Financial, Inc.'s internal control over financial reporting.

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

Wexford, Pennsylvania  
March 8, 2016

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

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

We have audited AmeriServ Financial, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. AmeriServ Financial, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Report on Management's Assessment of Internal Control over Financial Reporting*. Our responsibility is to express an opinion on AmeriServ Financial, Inc.'s internal control over financial reporting based on our audit.

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

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

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

In our opinion, AmeriServ Financial, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework* issued by COSO in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AmeriServ Financial, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015, and our report dated March 8, 2016, expressed an unqualified opinion.

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

Wexford, Pennsylvania

March 8, 2016

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# REPORT ON MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management assessed the Company's system of internal control over financial reporting as of December 31, 2015, in relation to criteria for effective internal control over financial reporting as described in 2013 Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of December 31, 2015, its system of internal control over financial reporting is effective and meets the criteria of the 2013 Internal Control - Integrated Framework. S.R. Snodgrass, P.C., independent registered public accounting firm, has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015.

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

Management has assessed compliance by the Company with the designated laws and regulations relating to safety and soundness. Based on the assessment, management believes that the Company complied, in all significant respects, with the designated laws and regulations related to safety and soundness for the year ended December 31, 2015.

/s/ JEFFREY A. STOPKO

Jeffrey A. Stopko  
President &  
Chief Executive Officer

/s/ MICHAEL D. LYNCH

Michael D. Lynch  
Senior Vice President &  
Chief Financial Officer  
Johnstown, PA  
March 8, 2016

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# STATEMENT OF MANAGEMENT RESPONSIBILITY

February 18, 2016

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

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

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

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

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

/s/ JEFFREY A. STOPKO

/s/ MICHAEL D. LYNCH

Jeffrey A. Stopko  
President &  
Chief Executive Officer

Michael D. Lynch  
Senior Vice President &  
Chief Financial Officer

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures.** As of December 31, 2015, an evaluation was performed under the supervision and with the participation of the Company's management, including the Interim Chief Executive Officer and Interim Chief Financial Officer, on the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on that evaluation, the Company's management, including the Interim Chief Executive Officer and Interim Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2015.

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed by the Company in its reports filed and submitted under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports filed under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Management Report on Internal Control over Financial Reporting.** The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Management's assessment of internal control over financial reporting for the fiscal year ended December 31, 2015 is included in Item 8.

**ITEM 9B. OTHER INFORMATION**

None.



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## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

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

### **ITEM 11. EXECUTIVE COMPENSATION**

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

TABLE OF CONTENTS**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS****Equity Compensation Plan Information**

The following table summarizes the number of shares remaining for issuance under the Company's outstanding stock incentive plans as of December 31, 2015.

Equity Compensation Plan Information			
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	470,449	\$ 2.74	308,058
Equity compensation plans not approved by security holders	0	0	0
Total	470,449	\$ 2.74	308,058

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

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

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

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

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

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**PART IV**

**ITEM 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES**

**CONSOLIDATED FINANCIAL STATEMENTS FILED:**

The consolidated financial statements listed below are from this 2015 Form 10-K and Part II Item 8. Page references are to this Form 10-K.

**CONSOLIDATED FINANCIAL STATEMENTS:**

AmeriServ Financial, Inc. and Subsidiaries	
<u>Consolidated Balance Sheets</u>	<u>35</u>
<u>Consolidated Statements of Operations</u>	<u>36</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>38</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>39</u>
<u>Consolidated Statements of Cash Flows</u>	<u>40</u>
<u>Notes to Consolidated Financial Statements</u>	<u>41</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>87</u>
<u>Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</u>	<u>88</u>
<u>Report of Management's Assessment of Internal Control Over Financial Reporting</u>	<u>89</u>
<u>Statement of Management Responsibility</u>	<u>90</u>

**CONSOLIDATED FINANCIAL STATEMENT SCHEDULES:**

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

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## EXHIBITS:

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

EXHIBIT NUMBER	DESCRIPTION	PRIOR FILING OR EXHIBIT PAGE NUMBER HEREIN
3.1	Amended and Restated Articles of Incorporation as amended through August 11, 2011.	Exhibit 3.1 to the Registration Statement on Form S-8 (File No. 333-176869) filed on September 16, 2011
3.2	Bylaws, as amended and restated effective December 30, 2014.	Exhibit 3.2 to the Current Report on Form 8-K filed on January 2, 2015
10.1	Employment Agreement, dated April 27, 2015, between AmeriServ Financial, Inc. and Jeffrey A. Stopko.	Exhibit 10.1 to the Current Report on Form 8-K filed on April 28, 2015
10.2	AmeriServ Financial, Inc. 2011 Stock Incentive Plan	Appendix A to the Definitive Proxy Statement, filed under Schedule 14A, filed on March 21, 2011
10.3	AmeriServ Financial, Inc. Deferred Compensation Plan	Exhibit 10.1 to the Current Report on Form 8-K filed on October 21, 2014
10.4	Employment Agreement, dated February 19, 2016, between AmeriServ Financial, Inc. and Michael D. Lynch.	Exhibit 10.1 to the Current Report on Form 8-K filed on February 24, 2016
21.1	Subsidiaries of the Registrant.	Attached
23.1	Consent of Independent Registered Public Accounting Firm	Attached
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.	Attached
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.	Attached
32.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	Attached
32.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	Attached
101	The following information from AMERISERV FINANCIAL, INC.'s Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eTensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to the Consolidated Financial Statements.	Attached



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# SIGNATURES

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

AmeriServ Financial, Inc.  
(Registrant)

/s/ Jeffrey A. Stopko

By:

Jeffrey A. Stopko  
President & CEO

Date: February 18, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 18, 2016:

/s/ Craig G. Ford

Chairman Director

Craig G. Ford

/s/ Jeffrey A. Stopko

President & CEO  
Director

/s/ Michael D. Lynch

CFO & SVP

Jeffrey A. Stopko

Michael D. Lynch

/s/ J. Michael Adams, Jr.

Director

/s/ Margaret A. O Malley

Director

J. Michael Adams, Jr.

Margaret A. O Malley

/s/ Allan R. Dennison

Director

/s/ Mark E. Pasquerilla

Director

Allan R. Dennison

Mark E. Pasquerilla

/s/ Daniel R. DeVos

Director

/s/ Sara A. Sargent

Director

Daniel R. DeVos

Sara A. Sargent

/s/ Bruce E. Duke, III

Director

/s/ Thomas C. Slater

Director

Bruce E. Duke, III

Thomas C. Slater

/s/ James M. Edwards, Sr.

Director

/s/ Robert L. Wise

Director

James M. Edwards, Sr.

Robert L. Wise

/s/ Kim W. Kunkle

Director

Kim W. Kunkle

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## **AMERISERV FINANCIAL, INC.**

### **AMERISERV FINANCIAL BANK OFFICE LOCATIONS**

	Main Office Downtown 216 Franklin Street PO Box 520 Johnstown, PA 15907-0520 1-800-837-BANK (2265)
*	Westmont Office 110 Plaza Drive Johnstown, PA 15905-1211
*	University Heights Office 1404 Eisenhower Boulevard Johnstown, PA 15904-3218
*	Eighth Ward Office 1059 Franklin Street Johnstown, PA 15905-4303
*	Carrolltown Office 101 South Main Street Carrolltown, PA 15722-0507
*	Northern Cambria Office 4206 Crawford Avenue Suite 1 Northern Cambria, PA 15714-1342
*	Lovell Park Office 179 Lovell Avenue Ebensburg, PA 15931-1864
*	Nanty Glo Office 1383 Shoemaker Street Nanty Glo, PA 15943-1254
*	Galleria Mall Office 500 Galleria Drive Suite 100 Johnstown, PA 15904-8911
	Seward Office 1 Roadway Plaza 6858 Route 711 Suite One Seward, PA 15954-3130
*	Windber Office 1501 Somerset Avenue Windber, PA 15963-1745

\* Central City Office  
104 Sunshine Avenue  
Central City, PA 15926-1129

\* Somerset Office  
108 W. Main Street  
Somerset, PA 15501-2035

\* Derry Office  
112 South Chestnut Street  
Derry, PA 15627-1938

\* South Atherton Office  
734 South Atherton Street  
State College, PA 16801-4628

Pittsburgh Office  
United Steelworkers Bldg  
60 Boulevard of the Allies  
Suite 100  
  
Pittsburgh, PA 15222-1232

\* North Atherton Office  
1857 N. Atherton Street  
State College, PA 16803-1521

\* = 24-Hour ATM Banking  
Available

**REMOTE ATM  
BANKING LOCATIONS**

\* East Hills Drive-up,  
1213 Scalp Avenue,  
Johnstown

\* Main Office,  
216 Franklin Street,  
Johnstown  
The Galleria, Johnstown

**AMERISERV LOAN  
PRODUCTION LOCATIONS**

Main Office Downtown  
216 Franklin Street  
PO Box 520  
Johnstown, PA 15907-0520

Altoona Office  
3415 Pleasant Valley Boulevard  
Pleasant Valley Shopping Center  
Altoona, PA 16602-4321

Hagerstown Office  
1829 Howell Road



Suite 3

Hagerstown, MD 21740-6606

Pittsburgh Loan Center  
Penn Center East  
Building 1  
201 Penn Center Boulevard  
Suite 200  
Pittsburgh, PA 15235-5507

Harrisonburg Office  
2322 Blue Stone Hills Drive  
Harrisonburg, VA 22801

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SHAREHOLDER INFORMATION

SECURITIES MARKETS

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

Sandler O'Neill & Partners, L.P.  
1251 Avenue of the Americas  
6<sup>th</sup> Floor  
New York, NY 10020  
Telephone: (800) 635-6860  
Stifel Nicolaus  
1407 Eisenhower Boulevard  
Johnstown, PA 15904  
Telephone: (814) 269-9211

Keefe Bruyette & Woods, Inc.  
787 Seventh Avenue  
Equitable Bldg 4<sup>th</sup> Floor  
New York, NY 10019  
Telephone: (800) 966-1559  
Knight Capital Group, Inc.  
545 Washington Boulevard  
Jersey City, NJ 07310  
Telephone: (800) 544-7508

CORPORATE OFFICES

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

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

AGENTS

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

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

INFORMATION

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